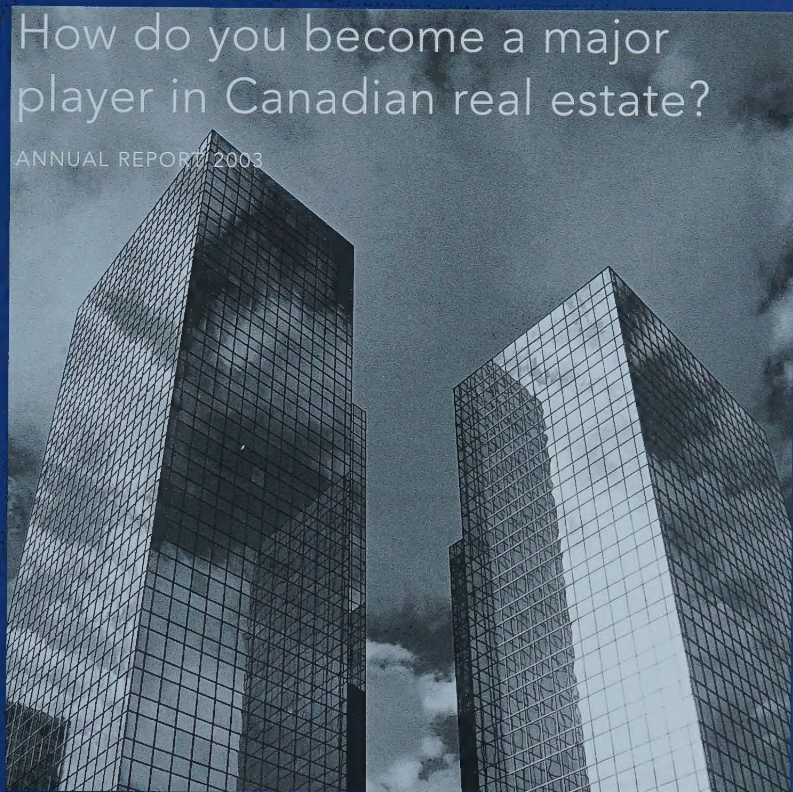
How do you become a major player in Canadian real estate?

ANNUAL REPORT 2003



Morguard CORPORATION

CORPORATION

INVESTMENTS

REIT

REVENUE PROPERTIES

FINANCIAL

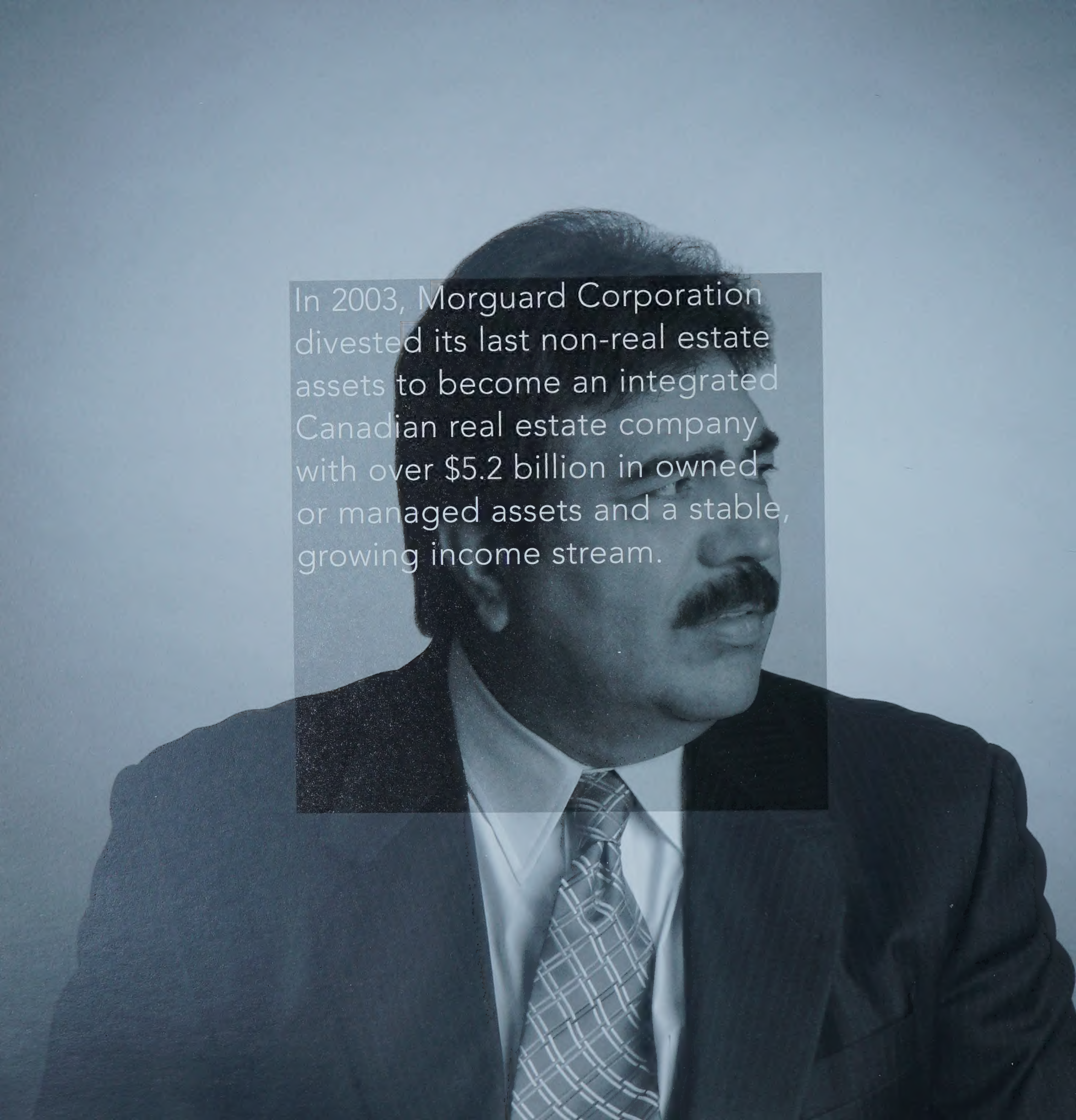
RESIDENTIAL

Establish a solid foundation.
Expand across all asset classes.
Recruit top management talent.
Integrate for maximum leverage.

In 1997 we entered the commercial and residential markets. In 1998 we acquired Morguard Investments, one of Canada's oldest and most respected real estate management and investment companies. We have continued to fortify our holdings in all asset classes and have built a management team of highly experienced real estate executives. In 2003, we further integrated, pooling the talent, resources and best practices of five real estate companies into one major player.

HOW DO YOU BECOME A MAJOR PLAYER IN CANADIAN REAL ESTATE?

In 2003, Morguard Corporation divested its last non-real estate assets to become an integrated Canadian real estate company with over $5.2 billion in owned or managed assets and a stable, growing income stream.



LETTER TO SHAREHOLDERS

THIS WAS A WATERSHED YEAR FOR MORGUARD CORPORATION. AFTER SEVEN YEARS OF MOVING TOWARDS A CLEAR FOCUS ON REAL ESTATE, WE DIVESTED THE LAST OF OUR NON-CORE ASSETS AND UNIFIED OUR OPERATING COMPANIES: MORGUARD INVESTMENTS, MORGUARD REAL ESTATE INVESTMENT TRUST, REVENUE PROPERTIES, MORGUARD FINANCIAL AND MORGUARD RESIDENTIAL. TODAY, WITH MORE THAN $5.2 BILLION IN OWNED AND MANAGED PROPERTIES, WE ARE A MAJOR CANADIAN REAL ESTATE COMPANY WITH STRONG BUSINESSES IN PROPERTY INVESTMENT, ASSET MANAGEMENT, PROPERTY MANAGEMENT, AND DEVELOPMENT AND CONSTRUCTION.

Since 1997 when Morguard made its first real estate investment, the net book value of our assets has grown to more than $2.1 billion. We now employ more than 1,000 people. Funds from operations during 2003, a key measure of performance, increased by 33.7%, and shareholders were rewarded during the year with a 36.1% total return.

Our goal is to create long term shareholder value. We're doing it by owning and managing a portfolio of high-quality income-producing properties with enviable income streams. Diversification is key. In addition to our successful real estate management business, our owned asset base contains substantial holdings in residential, office, industrial, and retail properties. As the market changes, we have the ability to grow in any one of these areas.

During 2003, we unified our companies to achieve operational efficiencies. This union gives Morguard Corporation a formidable pool of management and staff talent under one roof. Likewise, Morguard REIT has integrated its leasing and property management functions with Morguard Investments and is able to take full advantage of superior information systems, as well as our extensive network of regional offices across Canada.

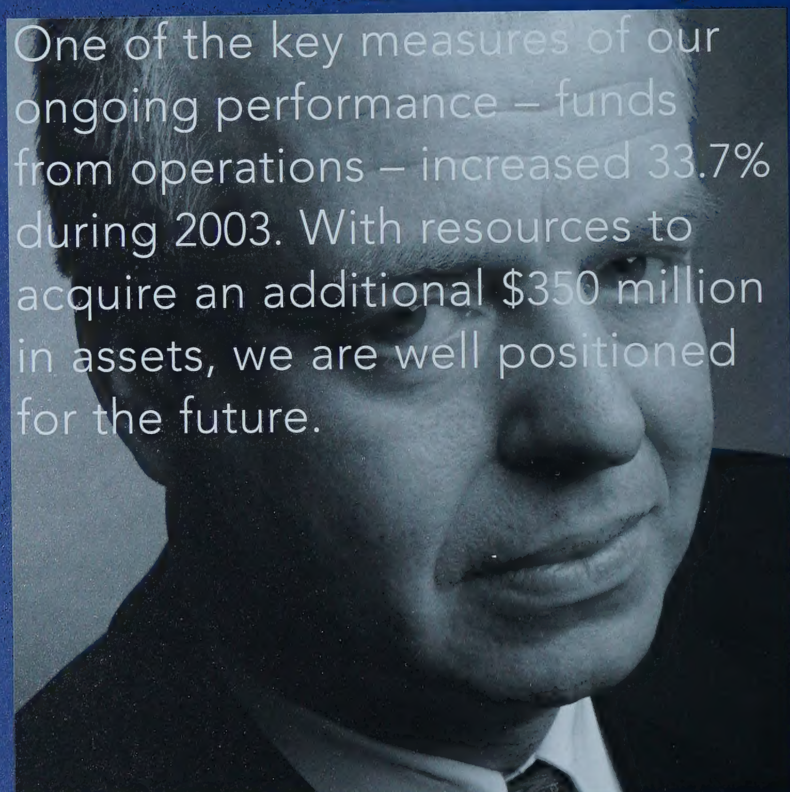
Development is a growing part of our business and in 2003 we undertook two major projects. Morguard acquired land at two prime sites along Queen Street in Ottawa, pre-leasing an office development at one site to the Canadian Broadcasting Corporation and the Government of Canada. That building was constructed through 2003 and occupied by March, 2004. We intend to develop the second Queen Street site in a similar fashion by 2006. It is already pre-leased to Public Works Canada. In Toronto, we are building 300 luxury residential rental units at the corner of Bay Street and Wellesley Street. It will be an $80-million asset at an exceptional location in the country's hottest rental market.

I am proud of the progress made by Morguard and the integration we have accomplished with all the Morguard companies. We are much stronger today as a unified group, able to draw upon the talent and best practices within each for the benefit of the whole. As the major shareholder of Morguard Corporation, I am committed both personally and financially to its future. Real estate is, in many ways, a cerebral business. And Morguard is thinking constantly about securing true long term value for its shareholders. I would like to give my thanks to the employees, sharholders and those directors retiring at the end of this year.

Sincerely,

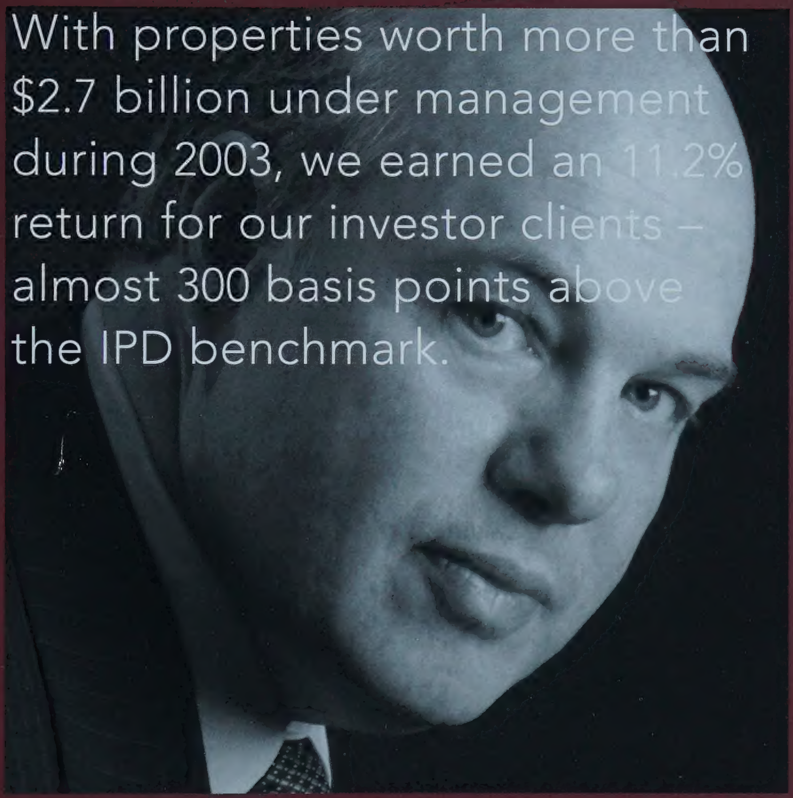
K. (Rai) Sahi

K. (RAI) SAHI
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER
MORGUARD CORPORATION



In 2003, the net book value of Morguard real estate assets exceeded $2.1 billion. Shareholders' equity totals $435.9 million or $31.07 per share. Funds from operations continue to improve with $92.4 million being realized in 2003 compared to $70.4 million in the prior year. Through prudent acquisitions and continued disposition of non-core real estate, Morguard continues to increase shareholder value.

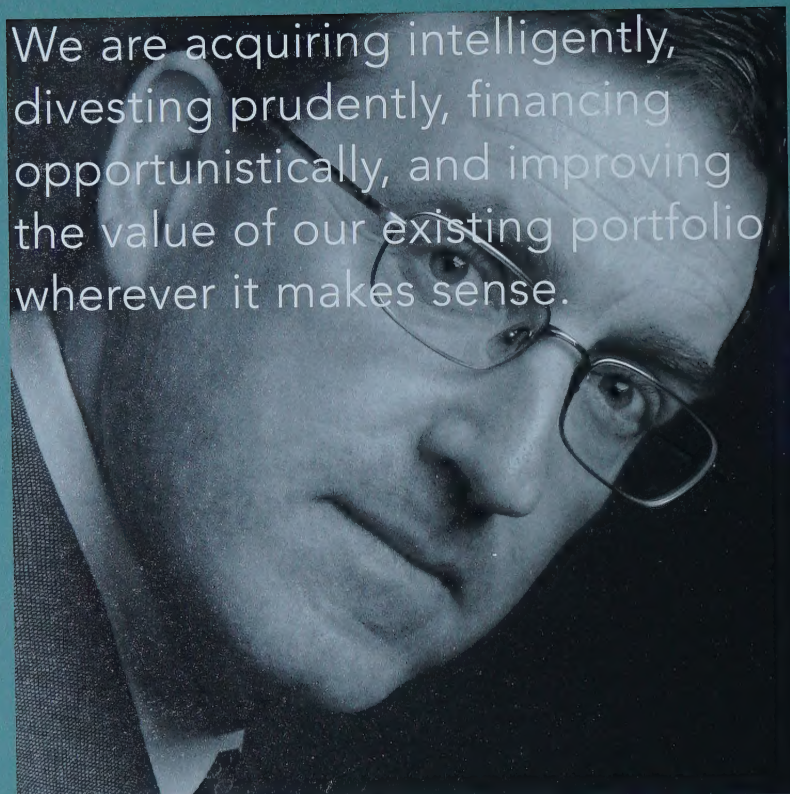
BART MUNN
VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
MORGUARD CORPORATION



Morguard Investments measures success on total rates of return to investor clients combined with the profits we earn from our management fees. 2003 was a strong year in both respects. New value was created for investors through an active development program and opportune asset sales and purchases. In 2004, we will add further value by expanding our client base and broadening our offering of new investment products and services.

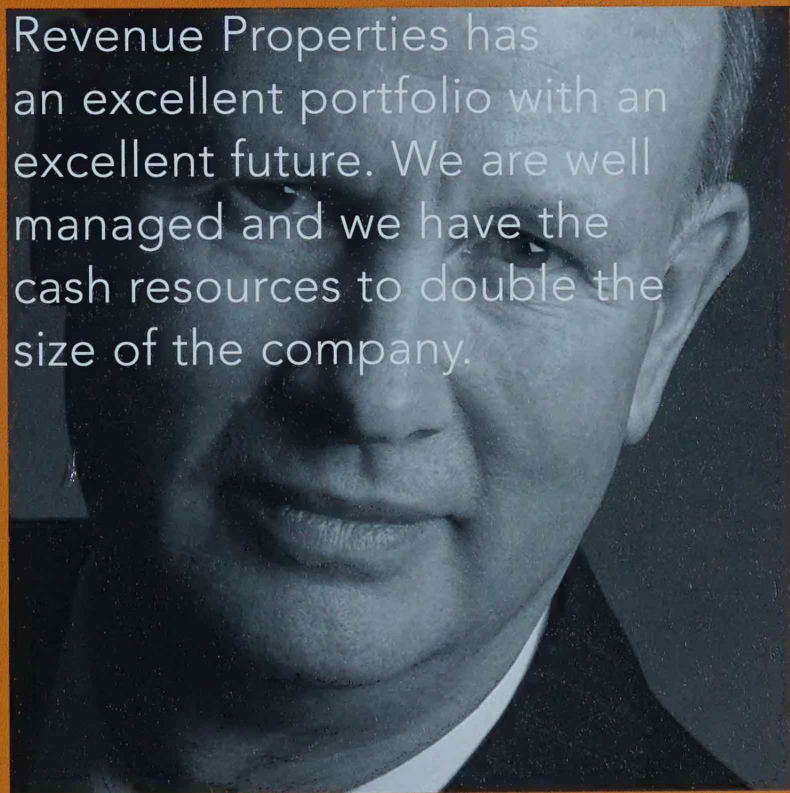
STEPHEN TAYLOR
PRESIDENT AND
CHIEF OPERATING OFFICER
MORGUARD INVESTMENTS
LIMITED

We are acquiring intelligently, divesting prudently, financing opportunistically, and improving the value of our existing portfolio wherever it makes sense.



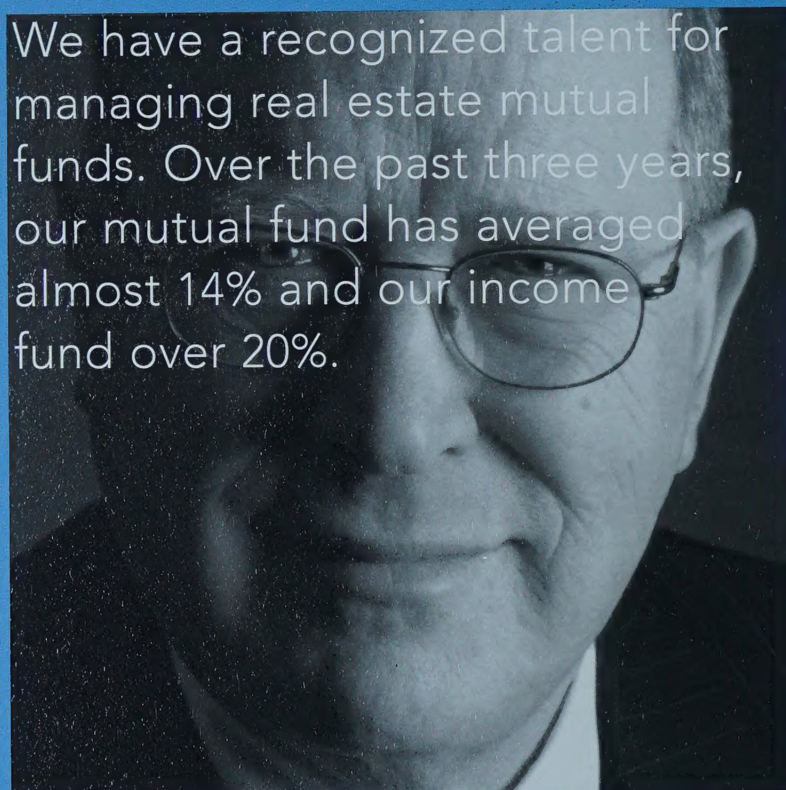
During 2003, the Morguard REIT returned 20% in combined income and unit price gains to unitholders. Our strategy is not speculative but cumulative. We are acquiring new properties that will earn solid returns for years to come while divesting of non-performers. Our portfolio is being enhanced significantly. We are well diversified. We are investing for the future.

BILL KENNEDY
PRESIDENT AND
CHIEF OPERATING OFFICER
MORGUARD REAL ESTATE
INVESTMENT TRUST



After disposing of significant non-core assets in 2002, Revenue Properties positioned itself for new growth in the Canadian real estate market. That market was highly active in 2003, so rather than overpay for new assets, we chose to reduce our costs and build our management expertise. We integrated operations with the Morguard Group of Companies. We reduced overheads by more than 30%. Our intention for 2004 is to invest as much as $300 million in new acquisitions, provided that favourable market conditions exist.

ANTONY K. STEPHENS
PRESIDENT
REVENUE PROPERTIES
COMPANY LIMITED



Morguard Financial Corp. is an OSC-registered investment manager that specializes in real estate and income-producing securities. In 2003, Morguard Financial managed a real estate mutual fund on behalf of a major Canadian bank and an internal pension fund. In 2004, our intention is to launch a number of real estate funds for the public market.

CHARLES DILLINGHAM
VICE PRESIDENT,
PORTFOLIO MANAGER
MORGUARD FINANCIAL
CORPORATION

In a year of extremely low interest rates, when rental occupants opted for home ownership in record numbers, we succeeded beyond our expectations. Net income was up. Vacancies were low. And we continued to upgrade our properties to grow future revenues.

Our strategy in this soft rental market has been to upgrade the more than 6,000 residential units we own mostly in Ontario. Over the past two years, we have invested more than $15 million in upgrades, increasing the quality and appeal of our units. Consequently, Morguard Residential properties were in greater demand in 2003, and our vacancy rate was only 3.5%. Net property income for the year was up by 4.8% from $42 million to $44 million. In 2004, we will continue to make value-added improvements building long term value.

K. (RAI) SAHI
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER
MORGUARD RESIDENTIAL INC.

The Morguard board of directors is comprised of 10 directors, eight of whom are un-related and come from a variety of industries, offering a variety of perspectives and insights.

The board of directors is responsible for supervising the Company's management and periodically reviewing its organizational structure and the performance and compensation of senior management. The board also oversees the development of the Company's strategic direction and regularly reviews management's implementation of strategies, budgets and business plans. The board approves all new acquisitions and divestures.

The board fulfills its responsibilities directly and through the following four committees.

AUDIT COMMITTEE

The Audit Committee ensures that Morguard is in compliance with legal and regulatory requirements. It supervises the integrity of financial reporting, internal controls and policies. It reviews and approves the scope and findings of external auditors for the interim review and annual audit. The three directors who are members of this committee are independent of the Company and have strong financial backgrounds.

HUMAN RESOURCES, COMPENSATION AND PENSION COMMITTEE

The Human Resources, Compensation and Pension Committee oversees the compensation of senior management. It is also responsible for reviewing company benefits, including the pension plan, and for reviewing succession planning for key executives.

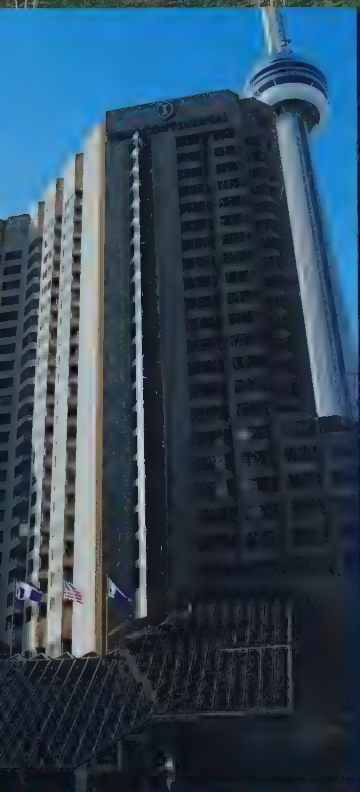
CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

The Corporate Governance and Nominating Committee establishes and monitors the board's governance practices and procedures. It assesses the composition of the board and is responsible for identifying and recommending candidates for election. It also evaluates the board's effectiveness, its committees and individual directors.

INVESTMENT COMMITTEE

The Investment Committee reviews all significant proposals including acquisitions and divestments. The board itself may also approve any matter that the Investment Committee has the authority to consider and approve.



Selected Properties

(CLOCKWISE FROM TOP LEFT CORNER)

CREEKSIDE CORPORATE CENTRE | MISSISSAUGA, ONTARIO

LEASIDE TOWERS | TORONTO, ONTARIO

THE COLONNADE | TORONTO, ONTARIO

SCOTIA PLACE | EDMONTON, ALBERTA

77 CITY CENTRE DRIVE | MISSISSAUGA, ONTARIO

ST. LAURENT CENTRE | OTTAWA, ONTARIO

181 QUEEN STREET | OTTAWA, ONTARIO

INTERCONTINENTAL | TORONTO, ONTARIO

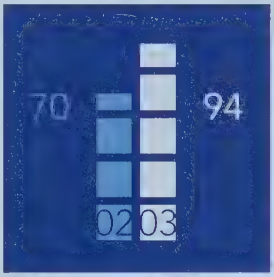

Financial Review

Financial Highlights

(In thousands of dollars except for share amounts and common shares outstanding)

Years ended December 31	2003	2002	2001	2000	1999
Revenue	$ 369,424	$ 332,307	$ 321,046	$ 260,387	$ 100,937
Earnings from operations before income taxes, minority interest and discontinued operations	71,654	61,075	75,626	73,724	24,422
Net earnings from continuing operations	4,582	38,355	45,653	39,444	19,791
Net (loss) earnings from discontinued operations	(6,623)	1,367	–	–	3,084
Net (loss) earnings for the period	(2,041)	39,722	45,653	39,444	22,875
Funds from continuing operations	94,057	70,362	113,239	59,621	21,337
Per common share	6.60	4.80	7.33	3.83	1.32
Total assets	2,383,309	2,206,510	1,773,251	1,688,443	1,484,953
Real estate assets	2,138,846	1,954,705	1,495,429	1,452,990	1,148,585
Long-term debt	1,153,010	1,022,400	816,340	757,957	635,891
Shareholders' equity	435,937	455,024	433,441	405,427	385,648
Net (loss) earnings per common share					
Basic	(0.14)	2.71	3.00	2.53	1.41
Diluted	(0.14)	2.26	2.42	2.40	1.31
Equity per common share	$ 31.07	$ 31.46	$ 29.19	$ 26.38	$ 23.95
Common shares outstanding	14,029,976	14,464,272	14,850,780	15,366,768	16,103,768

FUNDS FROM CONTINUING OPERATIONS
(In millions of dollars)



REAL ESTATE ASSETS
(In billions of dollars)

Management's Discussion and Analysis of Results of Operations and Financial Condition

Management's Discussion and Analysis of results of operations and financial condition should be read in conjunction with Morguard Corporation's audited financial statements and the accompanying notes for the years ended December 31, 2003 and 2002. The MD&A sets out the Company's strategies and provides an analysis of the financial performance for 2003, significant risks facing the business, and management's outlook for 2004.

Morguard Corporation's ("Morguard" or "the Company") financial results consolidate the operations of Morguard Residential Inc. ("Morguard Residential"), Morguard Real Estate Investment Trust, ("Morguard REIT"), and Morguard Investments Limited ("MIL"). The Company's investment in Revenue Properties Company Limited ("Revenue Properties") was equity accounted until July 31, 2002, and consolidated thereafter. MFP Financial Services Ltd. ("MFP") was accounted for on an equity basis in both years until sold in November 2003.

This annual report may contain forward-looking statements that involve a number of risks and uncertainties including statements regarding the outlook for the Company's business and results of operations; the nature of these risks and uncertainties could cause actual results to differ materially from those indicated. Such factors include, without limitation, the various factors set forth in the Management Discussion and Analysis of this report and as discussed in public disclosure documents filed with the Canadian regulatory authorities. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Business Overview

Morguard Corporation is a publicly traded real estate company listed on the Toronto Stock Exchange (TSX) under the symbol MRC. The Company is focused on ownership, management and development of both commercial and multi-family residential assets. Morguard owns a diversified portfolio of office, industrial, retail and multi-residential properties through three core investments: Morguard REIT, Morguard Residential and Revenue Properties. These assets are located in major centres across Canada. The total portfolio includes 18.7 million square feet of commercial space and more than 6,348 residential suites.

The Company also provides real estate management services to Canadian institutional investors and private individuals. Services include acquisitions, developments, dispositions, leasing, performance measurement and asset and property management. On behalf of third parties, the Company manages a commercial portfolio of 24.6 million square feet and a multi-family portfolio of approximately 3,600 suites, and an additional 781 suites commencing in 2004.

THE COMPANY IS FOCUSED ON OWNERSHIP, MANAGEMENT AND DEVELOPMENT OF BOTH COMMERCIAL AND MULTI-FAMILY RESIDENTIAL ASSETS.

Business Strategy

Morguard's strategy is to acquire or develop a diversified portfolio of commercial and multi-residential real estate assets for both its own accounts and for its institutional clients. Morguard currently owns $2.1 billion in real estate assets at book cost and manages approximately $2.7 billion for institutional investors. Morguard endeavors to reduce investment risk by diversification of the portfolio by both product type and geographic location. Finally, Morguard has assembled an experienced management team to maximize the return to the shareholders through best practice management strategies.

Morguard's acquisition and development criteria ensure that the Company proceeds on projects after mitigating any leasing and financing risk, and for a development, any construction risk.

During 2003, Morguard acquired approximately $238.9 million in real estate, of which $137.1 million was for managed accounts. Due to the aggressive pricing that existed during the year, the Company was very selective in its acquisition program, identifying product that would produce above average return.

Significant Transactions and Events

During the year, a number of significant transactions and events occurred:

- Morguard exited the financial services business through the sale of its investment in MFP during the fourth quarter.
- Morguard completed the construction of a 252,000 square foot office tower in downtown Ottawa. Occupancy by the Department of Public Works and the Canadian Broadcasting Corporation commenced in the first quarter 2004 as scheduled.
- Land was acquired and construction commenced on a 292 suite multi-residential building located in downtown Toronto. The building is targeted to upscale renters and is scheduled for completion in 2005.
- Morguard entered into interest rate swap contracts totalling $173.0 million to fix long term interest rates on interim financing and mortgages renewing over the next 18 months. As at December 31, 2003, these contracts were in the money for $1.9 million. During January 2004, one of the contracts was settled favourably for $1.0 million.
- The management of Revenue Properties was integrated with MIL to better allocate resources and to provide improved service levels.

Review of Financial Results

FUNDS FROM OPERATIONS

A key performance measure for real estate companies is the cash or funds generated from operations. Funds from operations ("FFO") is calculated as net earnings from continuing operations adjusted for non-cash items, cost of early settlement of mortgages and distributions from equity accounted investments. For the year ending December 31, 2003, the Company recorded consolidated FFO of $94.1 million ($6.47 per share) compared to $70.4 million ($4.69 per share) in 2002.

Consolidated FFO is calculated as if Morguard owned 100% of Morguard REIT and Revenue Properties. Consolidated FFO includes both Morguard's and the minority interest's share. To determine Morguard's share of FFO, the minority interest of Morguard REIT and Revenue Properties is deducted and then the inter-company fees and interest are added. Morguard's share of FFO totals $66.8 million or $4.59 per share.

(In thousands of dollars, except for per share amounts) Year ended December	2003	2002
Consolidated FFO	$94,057	$70,362
Per share – basic	6.60	4.80
Per share – diluted	6.47	4.69
Less:		
Minority interest		
Revenue Properties	2,774	2,730
Morguard REIT	28,124	24,152
Add:		
Inter-company fees and interest	3,654	2,456
Adjusted FFO	66,813	45,936
Per share – basic	4.69	3.13
Per share – diluted	4.59	3.06

Readers are cautioned that although the terms "Funds from Operations", "Adjusted Funds from Operations", "Net Property Income", "Book Value" and any related per share amounts are commonly used to measure, compare and explain the operating and financial performance of Canadian real estate companies and such terms are defined in the Management's Discussion and Analysis accompanying the Company's audited consolidated financial statements, such terms are not recognized terms under Canadian generally accepted accounting principles. Such terms do not necessarily have a standardized meaning and may not be comparable to similarly titled measures presented by the other publicly traded entities.

NET (LOSS)/EARNINGS

Net earnings from continuing operations totalled $4.6 million, or $0.32 per share, compared to $38.4 million, or $2.17 per share in 2002. The major contributors to the change in net earning from continuing operations are a charge to earnings to write down accrued pension benefits, changes in deferred tax provision resulting from anticipated rate changes and a reduction in earnings of equity accounted investments. Details of the changes are explained below.

Net loss from discontinued operations, net of minority interest, totals $6.6 million or $0.46 per share in 2003, the result of property sales by Morguard REIT and a provision for the diminution in value of real property of $16.0 million. This charge relates to the sale of two office properties located in Vancouver, British Columbia, for which their carrying value exceeds the agreed upon selling price less the estimated transaction costs. The sale is scheduled to close in the first quarter 2004.

Management separates its business activities into two segments, real estate operations and management and other operations. Real estate operations are defined to include ownership and development of real estate assets. Management and other operations includes property management, equipment leasing and distribution. By separating these two segments, management is better able to evaluate the performance of its owned assets and to more accurately assess the return on its real estate management business.

THE HOLT RENFREW CENTRE
TORONTO, ONTARIO

Operating Results

REAL ESTATE OWNERSHIP

Net Property Income

	2003			2002		
(In thousands of dollars)	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Income from properties	$327,387	$8,627	$336,014	$260,650	$8,997	$269,647
Property operating	141,247	4,662	145,909	114,470	4,561	119,031
Net property income	186,140	3,965	190,105	146,180	4,436	150,616

Income from properties increased 24.6% to $336.0 million in 2003. Discontinued operations have been included to show the total change in net property income during the year. Net property income, defined as income from properties less the property operating expenses, totalled $190.1 million, an increase of $39.5 million from 2002, and is reconciled as follows:

Increase in Net Property Income from 2002 to 2003

(In thousands of dollars)	Morguard Real Estate Investment Trust	Morguard Residential Inc.	Revenue Properties	Other	Increase/ (Decrease)
Existing	$ 3,936	$ (366)	$ (396)	$541	$ 3,715
Acquisition	16,355	2,211	4,165	–	22,731
Sold	(1,130)	–	(2,470)	–	(3,600)
Subtotal	19,161	1,845	1,299	541	22,846
Income in 2002 prior to consolidation	–	–	14,566	–	14,566
Elimination of inter-company	–	–	–	–	2,076
Change in income from properties	–	–	–	–	39,488

REAL ESTATE MANAGEMENT SERVICES

Through MIL and Morguard Residential, Morguard manages a portfolio of office, industrial, retail and residential properties for institutional and other investors. Fees are earned for the following services: asset management, property management, new business, leasing and dispositions. Fees and other income decreased $3.8 million or 10.2% to $33.9 million in 2003, as compared to $37.7 million in 2002. Real estate management revenues increased 2.8% in 2003, the result of fees earned from the commercial portfolio. This increase was offset by a non-recurring transaction fee of $2.4 million related to an acquisition recorded in 2002.

Property management and administration expenses totalled $54.4 million, an increase of 20.9%. Property management expenses totalled $26.7 million, an increase of 10.8%, the result of MIL assuming the management of the RPCL portfolio and assuming the staff.

Administration costs totalled $29.2 million compared to $20.9 million in 2002. During 2003, the Company's pension plan's investment performance was exceptional which eliminated the deficit in the plan. Accordingly, the accrued pension benefit of $8.9 million representing non-returnable funding contributions to the pension plan at December 31, 2003, can no longer be amortized over future periods and under Canadian GAAP has to be written down to an amount equal to expected future benefit for the active employees. During the fourth quarter, a charge against earnings of $8.5 million was recorded to comply with this requirement.

SALES OF PRODUCTS AND CONDOMINIUMS

Net sales of products and condominiums, defined as sales of products less cost of sales, totalled $2.2 million in 2003 compared to $3.8 million in the prior year. In 2002, Morguard Residential recorded condominium sales of $22.0 million producing a profit of $1.2 million. There were no sales of condominiums in 2003.

AMORTIZATION

Amortization expense totals $24.0 million, an increase of $6.1 million primarily due to acquisitions made by Morguard REIT during the years 2002 and 2003 and the inclusion of Revenue Properties for 12 months in 2003. Amortization of $0.9 million is included in discontinued operations.

In October 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Handbook Section 1100 that will require all entities to prepare financial statements in accordance with the primary source of GAAP as defined therein. The Company uses the sinking fund method of amortization for real estate properties. The CICA recommends that the cost of buildings be amortized on a systematic and rational basis over their useful lives. Effective January 1, 2004, the Company will amortize the building costs of its real estate properties on a straight-line basis, increasing building amortization an additional $30.3 million.

EQUITY ACCOUNTED INVESTMENTS

In 2003, only Morguard's share of the income of MFP was equity accounted totalling $0.2 million. Income was recorded until MFP was sold in November. In 2002, earnings from equity accounted investments totalled $15.0 million, which included $12.7 million from Revenue Properties for seven months and $2.3 million from MFP for the year. Included in Revenue Properties' results were two non-recurring transactions, the sale of two residential properties for a gain of $30.2 million and a foreign currency gain of $10.5 million.

GAINS ON SALES

During the year, Morguard recorded a gain of $1.3 million compared to $9.2 million in 2002. Morguard sold its investment in MFP for $23.9 million and recorded a gain of $1.2 million. In 2002, Morguard REIT and Revenue Properties realized a gain of $3.4 million and $6.3 million respectively, the result of property sales.

OTHER

In 2003, the Company recorded $9.0 million in other income compared to $2.1 million of expenses in the prior year. The Company recorded $6.7 million in investment income from a real estate investment and $1.1 million from Revenue Properties' investment portfolio. In 2002, a provision for litigation was recorded for $7.5 million.

WRITE-DOWN OF ASSETS AND INVESTMENTS

Morguard Residential reclassified a property held for sale to revenue-producing properties resulting in capitalized loss carryforwards of $0.4 million being charged to income. In 2002, Morguard decided that the financial services business was no longer a core investment and recorded a $17.6 million write-down in its investment in MFP in 2002.

FUTURE INCOME TAXES

The change in anticipated future tax rates from 30.12% at the end of 2002 to 36.12% at December 31, 2003, has had a significant impact on the Company's tax provision. This rate change accounts for approximately $20.8 million of the future tax provision in 2003. In 2002, anticipated future tax rates moved favourably over 2001 anticipated rates, significantly reducing the Company's provision.

MINORITY INTEREST

Minority interest totals $28.6 million of which $28.2 million relates to Morguard REIT and $0.4 million relates to Revenue Properties.

Financial Condition

Consolidated assets of $2,383.3 million as at December 31, 2003, represents an 8.0% increase over 2002. Real estate operations represent 97.6% of total assets.

REAL ESTATE ASSETS/MORTGAGE FINANCING

Consolidated real estate assets totalled $2,138.8 million compared to $1,954.7 million in 2002. Real estate assets include revenue-producing properties, properties under development and an investment in a regional shopping centre held at cost. The real estate has been pledged as security against mortgage financing. In 2003, mortgages and debentures payable totalled $1,110.3 million and construction financing totalled $35.9 million.

Revenue-Producing Properties

Revenue-producing properties have increased by 7.3% to $2,005.4 million. The increase is primarily the result of acquisitions completed by Morguard REIT totalling $101.6 million.

Mortgages and debentures payable totalled $1,110.3 million, a 14.1% increase over 2002. The mortgages and debentures are secured against specific assets held by Morguard REIT, Morguard Residential, Revenue Properties and various single-purpose companies. The $136.9 million increase is the result of continued growth in the real estate portfolio including the assumption of debt on 2003 acquisitions, financing of unlevered properties, refinancing of existing debt and payment of scheduled principal amounts. As a result of the higher debt, interest expense totals $71.5 million compared to $60.2 million in 2002.

The comparison of the weighted average interest rate and the term to maturity on mortgages and debenture payable as at December 31, 2003 and 2002, is summarized below:

	2003	2002
Annual weighted average interest rate	6.5%	6.8%
Average term to maturity	5.7 years	5.4 years

Properties Under Development

Properties under development in 2003 and 2002 totalled $91.0 million and $45.6 million respectively. Construction financing totalled $35.9 million in 2003 and $5.5 million in 2002. These costs relate to three development projects, two initiated by Morguard Residential and one by Morguard.

During 2003, Morguard Residential incurred development costs of $31.4 million on two projects located in Toronto: a 292-suite multi-family apartment building that is under construction and the redevelopment of a site for two 125-unit condominium towers and a 146-unit rental building. In January 2003, the lands under the project located at the intersection of Bay Street and Wellesley Street in Toronto, Ontario were acquired for $10.2 million and a further $11.6 million in construction costs was capitalized. On the second project, the minority partner's interest in the project was acquired for $8.2 million during the year.

Construction financing of $44.0 million has been negotiated for the development at the intersection of Bay Street and Wellesley Street. The loan bears interest at prime minus 0.5% and is due December 31, 2005. As at December 31, 2003, the outstanding balance was $7.4 million. Morguard has entered into a derivative to fix the interest rate against the ten-year Government of Canada bond for a principal amount of $43.0 million as at December 31, 2004. As at December 31, 2003, the swap contract was in the money by US $1.2 million.

REVENUE-PRODUCING PROPERTIES HAVE INCREASED BY 7.3% TO $2,005.4 MILLION.

A credit facility for $45.0 million in construction financing matures during the first quarter 2005. The outstanding balance as at December 31, 2003, totalled $28.4 million. The Company had entered a derivative contract to fix the interest rate against the ten-year Government of Canada bond. The Company terminated one unexercised interest rate swap on January 2, 2004, and received $1.0 million in settlement payments. A commitment for permanent financing of $60.0 million has been negotiated at a rate of 5.58% for ten years with a twenty-five year amortization. Closing is scheduled in April 2004.

INVESTMENTS

Consolidated investments at year-end were $28.0 million, compared to $51.8 million in 2002, reflecting the sale of MFP during the fourth quarter in 2003.

AMOUNTS RECEIVABLE

The balance at December 31, 2003, totalled $51.7 million compared to $23.5 million in 2002. The increase of $28.2 million is due to an $11.9 million note due January 2006 being received as partial consideration on the sale of MFP, Revenue Properties recording $8.6 million in short term, mezzanine real-estate loans and an increase in trade receivables recorded by MIL.

ASSETS HELD FOR SALE

The CICA amended the handbook in Section 3475 regarding the disposal of long-lived assets and discontinued operations. As a result, real estate assets sold or listed for sale that meet certain criteria are to be classified as discontinued operations including the comparative amounts. Subsequent to year-end, Morguard REIT entered into sale agreements with third parties to sell two office properties located in Vancouver, British Columbia, and one in Winnipeg, Manitoba. As a result, the properties were classified as assets held for sale and a provision for diminution in value of $16.0 million was recorded. In addition, an industrial property sold for $1.5 million in 2003 that was recorded as discontinued operations.

BANK INDEBTEDNESS AND LOANS

Morguard and its operating companies have credit and operating facilities totalling $193.5 million, of which $159.7 million had been borrowed as at December 31, 2003. Portfolio investments, accounts receivable and capital assets have been pledged as collateral for the loans. As at December 31, 2003, the Company is in compliance with all covenants and undertakings.

WINSTON BUSINESS PARK
OAKVILLE, ONTARIO

LONG TERM NOTES PAYABLE

Long term notes payable totalled $42.7 million as at December 31, 2003, a reduction of $6.3 million from the prior year. These notes were issued as partial consideration for the acquisition of Morguard Residential and Revenue Properties shares. The senior notes bear an interest rate of 6.0% and mature in 2005 and 2006. In February 2003, as part consideration to acquire a further 3.2% of the outstanding shares of Revenue Properties, Morguard issued an additional $2.6 million promissory note.

MINORITY INTEREST

Minority interest of $386.6 million includes non-controlling interest in subsidiaries equity totalling $197.5 million and non-controlling interest in subsidiaries convertible debentures of $189.1 million.

SHAREHOLDERS' EQUITY

Consolidated shareholders' equity as at December 31, 2003, totalled $435.9 million or $31.07 per share, compared to $455.0 million or $31.46 per share in 2002.

The Company maintained its annual dividend payment of $0.56 per share, payable quarterly, paying $8.0 million during the year. The Company offers a dividend re-investment plan to its shareholders to permit the purchase of additional shares at a 5.0% discount to the recent trading price. Morguard issued 6,704 shares under the plan.

Morguard has the right under a normal course issuer bid that expires September 19, 2004, to purchase up to 714,594 common shares for cancellation. The Company purchased 535,000 of its shares under the current and previous plan for $10.4 million at a weighted average cost of $19.35 per share.

CHANGE IN ACCOUNTING FOR THE ALLOCATION OF THE PURCHASE PRICE OF PRIOR YEARS

When allocating the purchase price to the fair value of the assets acquired for each of the step purchases of Revenue Properties in 2002 and 2001, there was a misclassification relating to the non-controlling interest in the convertible debentures between the fair value of real estate assets acquired and the related minority interest (i). In addition, the Company did not record the future income tax liabilities associated with the excess of the fair value of the net assets acquired over the purchase price related to its investments in Revenue Properties and Morguard Residential as is required by Canadian GAAP. In the current year, the Company has reclassified the balance sheet at December 31, 2002, to reflect these items (ii). Further, due to decreases in the substantively enacted tax rates subsequent to the purchases, reductions in the future income tax liabilities should have been recognized through the provision for future income taxes and, as a result, opening retained earnings for 2002 increased by $9.3 million and 2002 reported earnings increased by $10.4 million (iii). This adjustment had no impact on cash flows or earnings before income taxes and minority interest.

	December 31, 2002		
(In millions of dollars, except for per share amounts)	As Previously Reported (Adjusted for Discontinued)	Adjustment	As Restated
Real estate assets	$1,805.4	89.5 (ii)	$1,954.7
		59.9 (i)	
Future income tax liabilities	(32.3)	(89.5) (ii)	
		9.3 (iii)	
		10.4 (iii)	(102.1)
Minority interest	(335.3)	(63.9) (i)	(399.2)
Mortgages and convertible debentures	(975.8)	2.4 (i)	(973.4)
Opening retained earnings	(298.1)	(9.3) (iii)	(307.5)
Cumulative translation adjustment	1.6	1.6 (i)	–
Future tax expense	(0.1)	(10.4) (iii)	(10.5)
Basic diluted earnings per share	2.00	0.71	2.71
Diluted earnings per share	1.57	0.69	2.26

Liquidity

Sufficient capital is available to execute the Company's strategic plan and finance continued growth. Sources of capital include cash generated from operations, under-leveraged real estate assets, cash or short term investments, available bank lines and the sale of non-core investments.

During 2003, the Company generated $94.1 million in funds from operations and ended the year with cash and cash equivalents of $9.1 million. Cash distributions from the operating subsidiaries and long term investments totalled $38 million. These funds are used to pay corporate overhead, service corporate debt, pay dividends and re-invest in the business. The Company has an investment portfolio of $27.9 million that is available and proceeds from real estate sales are expected in the first quarter of 2004.

Morguard and its subsidiaries have operating lines totalling $193.5 million, of which $33.8 million remains unused at the year-end. In addition, the Company has construction facilities totalling $89.0 million of which $35.9 million has been drawn. The Company has entered into various agreements for the purchase and development of properties. Should all the conditions be met, future commitments in the next 12 months are estimated at $52.8 million.

Subsequent Transactions

In January 2004, the Company terminated one unexercised interest rate swap. As a result, the Company received $1.0 million in settlement payments. This will be recorded as an adjustment to interest expense over the remaining life of the instrument.

Morguard REIT has entered an agreement to sell a 100% interest in two office properties located in Vancouver, British Columbia, and one in Winnipeg, Manitoba, for an aggregate sale price in excess of $43.0 million. The sale closed in the first quarter of 2004. A $16.0 million provision for a diminution in value of these properties was recorded in the fourth quarter of 2003.

In addition, Morguard REIT has entered an agreement to sell a 50% interest in two office properties in Alberta. The transaction also closed in the first quarter of 2004 and Morguard REIT realized a gain on sale of approximately $7.0 million.

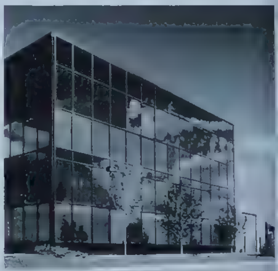
In February 2004, Morguard REIT refinanced the mortgages and a line of credit secured by the Cambridge Centre, Cambridge, Ontario. The new $75.0 million mortgage is for a 10-year term at a fixed rate of 5.85% per annum, maturing on March 1, 2014.

On January 22, 2004, the Company settled a valuation dispute with the dissenting shareholders of Morguard Residential in the amount of $6.1 million, representing the principal of $5.5 million and interest of $652,000. The result of the transaction was to increase the Company's recorded investment in Morguard Residential by $1.2 million and cancel notes of $2.1 million.

Risk and Uncertainties

REAL ESTATE INDUSTRY

In 2003, the Company's real estate portfolio continued to perform well. The market continues to price product aggressively and Morguard used this opportunity to make selective acquisitions and to sell non-core assets. The market has witnessed minimal new development with the exception of condominiums in major centres. As a result, the supply of commercial space has not increased significantly. Due to the capital-intensive nature of the business, the cost of financing has a significant impact on the returns to investors. Financing rates have remained very attractive throughout the year and no significant uplift is forecasted for the foreseeable future. The following identify business risks associated with the Morguard portfolio and management's strategy to reduce the potential impact.



PORTLAND STREET DEPOT
CALGARY, ALBERTA

OPERATING RISK

Management believes that maintaining high occupancy levels is one of the key goals of the real estate industry. Real estate has a high fixed cost associated with ownership, and income lost due to vacancies cannot easily be minimized through cost reduction. Tenant retention is critical to maintaining occupancy levels. Through well-located and professionally managed properties, management seeks to both increase tenant loyalty and become the landlord of choice. Surveys are conducted to determine the needs of tenants and to ensure that Morguard provides these services. The needs ranked highest by tenants are security, maintenance standards, and occupancy cost.

When vacancies occur, marketing of the space is through both the brokerage community and internal resources. By maximizing the exposure to the marketplace, management's goal is to quickly re-lease the space. During 2003, management engaged a process-engineering firm to document and evaluate the leasing process at Morguard. The result of the evaluation was improved leasing efficiencies and faster re-leasing of space.

Morguard reduces operating risk through diversification. Tenant diversification has resulted in the largest tenant as at December 31, 2003, being Public Works and Government Services Canada representing more than 3.4% of total revenue (excluding recoveries), followed by Zellers representing 1.8%. In addition, lease maturities are staggered to minimize increases in vacancy rates in the same period.

Product and geographic diversification further decreases operating risk. The Company's commercial portfolio includes office, industrial and retail product located in major urban centres across Canada. The Company's multi-residential portfolio is primarily located in southern Ontario. By diversifying, the impact of any negative economic conditions on the portfolio is mitigated since markets and product type are impacted differently.

ACQUISITION AND DEVELOPMENT RISK

In 2003, the Company acquired $101.6 million in assets for its own account. The investment criteria focused on well-located assets, with minimal leasing exposure in the short term and tenants with strong covenants. Assets are financed at current market rates resulting in above-average investment returns.

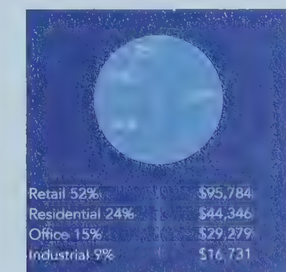
To mitigate development risk, the Company's development criteria for greenfield development emphasizes prudent selection of development sites, minimal land banking, and an adequate level of leasing or condo sales prior to commencing construction. To further reduce risk, Morguard attempts to have interim financing and fixed construction contracts in place at the outset of the development.

ENVIRONMENTAL RISK

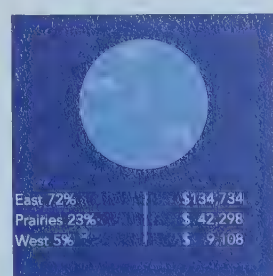
As an owner and manager of real property, the Company is subject to various laws relating to environmental matters. These laws impose liability for the cost of removal and remediation of certain hazardous materials released or deposited on properties owned or managed by the Company or on adjacent properties. As a result, Phase 1 audits are completed prior to the acquisition of any property. Once acquired, environmental assessment programs ensure continued compliance with all laws and regulations governing environmental and related matters. Morguard's management and the management of each of the operating companies are responsible for ensuring compliance with environmental legislation and are required to report quarterly to their respective boards of directors. The Company has certain properties that contain hazardous substances and management has concluded that the necessary remediation costs will not have a material impact on its operations. The Company has obtained environmental insurance on certain assets to further manage risk.

AS AT DECEMBER 31, 2003, PORTFOLIO DIVERSIFICATION AS A PERCENTAGE OF THE NET PROPERTY INCOME IS AS FOLLOWS:

PRODUCT BY TYPE



PRODUCT BY LOCATION



FINANCING RISK

In the low interest rate environment that the Canadian economy has experienced in the last three years, leverage has enabled the Company to significantly enhance its return to shareholders. Morguard has benefited as acquisitions were financed at attractive rates and mortgages renewed at the lower rates. Morguard has also elected for certain properties to negotiate an early renewal and incur a financing penalty to lock in current rates for the long term.

A reversal of this trend, however, can negatively affect a business's ability to meet its financial obligations. To minimize this risk, Morguard has structured its debt maturities over a number of years and has negotiated fixed interest rates on a significant portion of the debt. To further mitigate the impact of higher interest rates on the portfolio, the Company has entered a number of interest rate derivatives to fix the rate on both interim financing and mortgages maturing over the next eighteen months.

As at December 31, 2003, the Company had 97.0% percent of its financing with fixed interest rates with the weighted interest rate of 6.5% and the weighted average term to maturity of 5.7 years.

Outlook

Management believes that the Canadian real estate industry will not experience significant changes in 2004.

Property sales continue to be aggressively priced in all product types. Capital remains plentiful for both commercial and multi-residential real estate with many of the recent sales going to offshore investors. Interest rates remain at historical lows, which increases shareholders' return even when the real estate is acquired at low capitalization rates. Inflation numbers continue to be low resulting in minimum risk that interest rates will increase significantly in the near term. Increases in interest rates will have a negative impact on real estate returns.

The office market has experienced the greatest increase in vacancies and continues to be impacted by sublet space. Retail and industrial space continues to perform with vacancies of 4.0% and 7.0% respectively. Morguard's commercial portfolio will continue to perform positively, the result of its diversified, high-quality portfolio.

The majority of Morguard's residential portfolio is located in Toronto, where the market vacancy has increased and is approximately 5.0%. Continued pressure on vacancies is anticipated as low interest rates make home ownership more affordable and competition increases with the completion of condominium projects that join the rental pool. Uncertainty does exist regarding rent controls and the new Ontario government's position. Due to the superior location of our rental properties, management believes that current occupancies can be sustained or improved during 2004.

Morguard will continue to divest non-core real estate. A 100% interest in three office properties and a 50% interest in two additional properties are scheduled to close in the first quarter of 2004. Proceeds from the sales will be used to pay down existing bank lines in the short term and to pursue investment opportunities. The Company's investment activity will focus on quality properties with solid tenant rosters and minimal near-term lease expiries.

MANAGEMENT BELIEVES THAT THE CANADIAN REAL ESTATE INDUSTRY WILL NOT EXPERIENCE SIGNIFICANT CHANGES IN 2004.

Management's Reporting Responsibility

The accompanying consolidated financial statements of Morguard Corporation and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with accounting principles generally accepted in Canada. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the Company and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, have developed and maintain a system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Ernst & Young LLP, Chartered Accountants, and their report is presented below.

K. (Rai) Sahi Chairman and Chief Executive Officer	Bart Munn Vice-President and Chief Financial Officer

Auditors' Report

To the Shareholders of Morguard Corporation

We have audited the consolidated balance sheets of Morguard Corporation as at December 31, 2003 and 2002 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
March 17, 2004

Ernst & Young LLP

Chartered Accountants

Consolidated Balance Sheets

(In thousands of dollars) As at December 31	2003	2002 (Restated) (NOTE 3)
ASSETS		
Real estate assets, net (NOTE 4)	$2,138,846	$1,954,705
Other assets including goodwill (NOTE 6)	98,460	101,811
Cash and cash equivalents	9,094	10,907
Restricted cash (NOTE 9)	11,780	1,037
Investments (NOTE 5)	27,962	51,797
Amounts receivable (NOTES 7 AND 19)	51,666	23,480
Capital assets, net	3,351	3,032
Assets held for sale (NOTE 23)	42,150	59,741
Total assets	$2,383,309	$2,206,510
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS' EQUITY		
Liabilities		
Mortgages and debentures payable (NOTE 9)	1,110,291	973,393
Bank indebtedness and loans (NOTE 10)	159,675	137,267
Accounts payable and accrued liabilities	78,818	84,121
Future income tax liabilities (NOTE 15)	132,073	102,099
Long-term notes payable (NOTE 3)	42,719	49,007
Construction financing on properties under development (NOTE 11)	35,895	5,478
Liabilities related to assets held for sale (NOTE 23)	1,280	920
Total liabilities	$1,560,751	$1,352,285
Minority interest (NOTES 3 AND 12)	$ 386,621	$ 399,201
Shareholders' equity		
Share capital (NOTE 13)	119,982	122,965
Retained earnings	315,955	332,059
Total shareholders' equity	$ 435,937	$ 455,024
Total liabilities and shareholders' equity	$2,383,309	$2,206,510

See accompanying notes.

On behalf of the board

K. (Rai) Sahi
Director

Wayne M. E. McLeod
Director

Consolidated Statements of Earnings and Retained Earnings

(In thousands of dollars, except for per share amounts) Years ended December 31	2003	2002 (Restated) (NOTE 3)
REVENUE		
Income from properties	$327,387	$260,650
Fees and other income (NOTE 19(D))	33,858	37,706
Sales of products and condominiums	8,179	33,951
	369,424	332,307
EXPENSES		
Property operating	141,247	114,470
Property management and administration (NOTE 17)	54,413	45,022
Cost of sales	6,003	30,198
	201,663	189,690
Earnings from operations before the undernoted	$167,761	$142,617
Amortization	24,020	17,900
Interest	9,754	4,406
Interest on mortgages and debentures	71,478	60,210
	105,252	82,516
Earnings before other income (expense), income taxes and minority interest	$ 62,509	$ 60,101
OTHER INCOME (EXPENSE)		
Cost of early settlement of mortgages	(908)	(258)
Net gain on sale of assets and investments (NOTES 4 AND 5)	1,287	9,177
Earnings of equity accounted investments (NOTE 5)	235	15,016
Other	8,963	(2,144)
Write-down of assets and investments (NOTE 5)	(432)	(20,817)
	9,145	974
Earnings before income taxes and minority interest	$ 71,654	$ 61,075
Provision for (recovery of) income taxes (NOTE 15)		
Current	9,967	7,702
Future	28,527	(10,528)
	38,494	(2,826)
Minority interest	(28,578)	(25,546)
Net earnings from continuing operations	4,582	38,355
Net (loss) earnings from discontinued operations	(6,623)	1,367
Net (loss) earnings for the year	$ (2,041)	$ 39,722
Retained earnings, beginning of year as restated (NOTE 3)	332,059	307,466
Dividends paid	(7,972)	(9,842)
Excess of repurchase price of common shares over average carrying value	(6,091)	(5,287)
Retained earnings, end of year	$315,955	$332,059
Net (loss) earnings per share		
Basic earnings per share – continuing operations	0.32	2.62
Diluted earnings per share – continuing operations	0.32	2.17
Basic and diluted (loss) earnings per share – discontinued operations	(0.46)	0.09
Basic – net earnings	(0.14)	2.71
Diluted – net earnings	(0.14)	2.26

See accompanying notes.

Consolidated Statements of Cash Flow

(In thousands of dollars, except for per share amounts) For the year ended December 31	2003	2002 (Restated) (NOTE 3)
OPERATING ACTIVITIES		
Net earnings from continuing operations	$ 4,582	$ 38,355
Items not affecting cash		
Minority interest	28,578	25,546
Amortization	24,020	17,900
Future income taxes	28,527	(10,528)
Net gain on sale of assets and investments	(1,287)	(9,177)
Write-down of assets and investments	432	20,817
Earnings of equity accounted investments	(235)	(15,016)
Pension valuation allowance and other (NOTE 17)	8,532	1,167
Cost of early settlement of mortgages	908	258
Distributions from equity accounted investments	–	1,040
	94,057	70,362
Leasing costs	$ (8,348)	$ (18,988)
Net change in operating assets and liabilities (NOTE 16 (A))	$ (43,996)	$ 53,316
Cash provided by operating activities	$ 41,713	$ 104,690
FINANCING ACTIVITIES		
Subsidiaries cash and cash equivalents at date of acquisition	–	30,368
Net proceeds from bank indebtedness and loans	22,408	10,106
Proceeds from construction financing on properties under development	30,417	11,506
Repayment of construction financing on properties under development	–	(34,120)
Proceeds from mortgages	153,911	162,992
Repayment of mortgages and debentures	(83,914)	(131,132)
Repayment of long-term note payable	(6,288)	(1,995)
Proceeds on issue of common shares	1,176	1,169
Net proceeds on issue of subsidiary convertible debentures	16	140,633
Proceeds on issue of subsidiary common shares	293	3,340
Shares purchased for cancellation	(10,350)	(9,738)
Dividends paid	(7,872)	(9,570)
Distribution to subsidiary unitholders/shareholders	(33,230)	(27,853)
(Increase) decrease in restricted cash	(10,743)	1,059
Cash provided by financing activities	$ 55,824	$ 146,765
INVESTING ACTIVITIES		
Purchase of real estate and capital assets	(122,241)	(316,448)
Sale of assets and investments	56,140	99,986
Purchase of investments	(34,140)	(1,336)
Purchase of additional investment in subsidiary	(3,843)	(37,668)
Cash used in investing activities	$(104,084)	$(255,466)
Net decrease in cash and cash equivalents during the period	(6,547)	(4,011)
Cash provided by discontinued operations	4,734	3,259
Cash and cash equivalents, beginning of period	10,907	11,659
Cash and cash equivalents, end of period	$ 9,094	$ 10,907

See accompanying notes.

Note 1
Nature of Operations

Morguard Corporation (the "Company") is a real estate investment company formed under the laws of Canada whose principal activities include property ownership, development and property management services. Property ownership encompasses interests in both commercial and residential real estate. The diverse portfolio of commercial real estate includes retail, office and industrial properties across eight Canadian provinces. Through its residential real estate holdings, the Company, in addition to providing rental services, constructs and sells residential condominiums.

Note 2
Significant Accounting Policies

BASIS OF PRESENTATION

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and its accounting policies and standards of financial disclosure are in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies.

In October 2003, the Canadian Chartered Institute of Chartered Accountants ("CICA") issued Accounting Handbook Section 1100 that will require all entities to prepare financial statements in accordance with the primary source of GAAP as defined therein. The amendment is effective for all fiscal years beginning on or after October 31, 2003. The Company has described the specific impact that this amendment has on its accounting policies, where applicable.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all of its subsidiaries and the Company's proportionate share of the assets, liabilities, revenue and expenses of its co-ownership interests, which include incorporated and unincorporated joint ventures and partnerships, held by certain of the Company's subsidiaries. The Company's principal operating companies and the respective ownership interest in each are as follows:

Ownership	2003	2002
Morguard Investments Limited ("MIL")	100.00%	100.00%
Morguard Residential Inc.	100.00%	100.00%
Morguard Real Estate Investment Trust ("Morguard REIT")	50.12%	50.21%
Revenue Properties Company Limited ("RPCL")	79.58%	76.41%

All intercompany balances and transactions between subsidiaries of the Company, including any unrealized gains or losses have been eliminated. The Company accounts for investments in which it exercises significant influence by the equity method. Long-term investments in companies in which the Company does not have significant influence are recorded at cost. When there is a permanent impairment in the value of long-term investments, they are written down to net realizable value.

USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. In determining estimates of net recoverable amounts and net realizable values for its real estate assets, the assumptions underlying estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the underlying assumptions change, actual results could differ from the estimated amounts.

REAL ESTATE ASSETS

Revenue-Producing Properties

Revenue-producing properties are stated at the lower of cost, net of accumulated amortization, and the net recoverable amount. Net recoverable amount is the projected undiscounted net cash flow from use of the property together with residual value. Since this calculation reflects the long-term nature of the investment, the carrying value of the property may, at any given time, exceed its net realizable value.

The sinking fund method of providing amortization is used for revenue-producing properties. This method charges the cost of buildings over maximum periods of 40 years for commercial real estate and 50 years for residential real estate in a series of annual installments increasing at the rate of 5% compounded annually.

Included in residential buildings are appliances capitalized and amortized on a 10% straight-line method. Major capital improvements are capitalized and amortized over terms appropriate to the expenditure.

Revenue-producing properties include an investment in real estate recorded at cost. This investment represents the Company's interest in a co-ownership venture over which it does not exercise significant influence.

Properties Under Development and for Sale and Capitalization of Costs

Properties under development and for sale are valued at the lower of cost and net realizable value at the expected time of sale. Net realizable value represents the amount of estimated net sales proceeds, taking into account management's assumptions and projections for the development of the property and market conditions. The cost of properties under development includes all expenditures incurred in connection with the acquisition, including other direct costs, realty taxes, initial marketing and tenanting of the building to prepare it for its productive use, the applicable portion of general and administrative expenses and interest on debt related to the development.

Deferred Expenses

Leasing and financing costs are amortized on a straight-line basis over the terms of the leases or debt to which they relate.

Recoverable Repair Costs

Major recoverable repair costs of commercial real estate assets are deferred and subsequently recovered from tenants over varying periods of up to 10 years.

Revenue Recognition

Income from properties includes rents by tenants under lease agreements, percentage participation rents, property tax and operating cost recoveries, lease cancellation fees, leasing concessions, parking income and incidental income. Percentage participation rent is recognized after the minimum sales level has been achieved in accordance with each lease. All other rental revenue is recognized in accordance with each lease. Revenue from development activities related to commercial real estate is recognized upon the earlier of attaining a break-even point in cash flow after debt servicing or the expiration of a reasonable period of time following substantial completion subject to the time limitation determined at the time of approval of the project. Revenue from development activities related to residential real estate is recognized after an occupancy level of 70% is achieved. Prior to this time, the property is categorized as a development property. Revenue from the sale of properties is recognized once all significant conditions have been met and collection of the proceeds from sale is reasonably assured. Revenue from land sales is recognized when all material conditions of the related agreement of purchase and sale have been met and at least 15% of the total purchase price has been received. Condominium unit sales are recognized as revenue when the amount due on first closing is received in cash. At that time, the purchaser is entitled to occupancy and undertakes to assume a mortgage for the balance of the purchase price and the vendor undertakes to transfer title on registration under the Condominium Act of the applicable jurisdiction. Revenue from sales of product and services is recognized when the goods are shipped or the service performed.

Other Assets Including Goodwill

On acquisition, the underlying fair value of net identifiable tangible and intangible assets is determined and goodwill is recognized as the excess of the purchase price over this amount. Goodwill is not amortized. Goodwill is tested for impairment on an annual basis to determine whether the fair value of the reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. Any impairment is then recorded as a separate charge against earnings and a reduction of the carrying value of goodwill. Inventories, comprising finished goods, are valued at the lower of average cost or net realizable value.

Portfolio Investments

The portfolio of marketable securities is carried at cost plus accrued interest. In the event of a decline in the value of a security the investment will be written down to recognize the loss.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives using the following rates and methods:

Equipment	10–20% straight-line
Leasehold improvements	Straight-line over the term of the lease

Income Taxes

The Company uses the liability method of accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Cash and Cash Equivalents

Cash equivalents comprise only highly liquid investments with original maturities at the date of purchase of less than ninety days. Cash equivalents are carried at cost, which approximates market value.

Pensions

The Company recognizes the cost of all defined benefit plans in the period in which the employee has rendered services to the entity. The cost and obligations of pensions earned by employees are actuarially determined using the projected benefit method prorated on service and management's best estimate of assumptions of future investment returns, salary changes, retirement ages of employees and expected health care costs. No past service costs have been incurred under this plan. The costs of the plan are then attributed over the period in which the employee becomes entitled to benefits under the plan. For the purpose of calculating the expected return on plan assets those assets are valued at fair value. Actuarial gains and losses would be amortized over the average remaining working period of a company's employees only if, in the aggregate, they are within 10% of the gross pension obligation or total plan assets, whichever is greater ("10% corridor"). Unrecognized actuarial gains or losses in excess of this 10% corridor would be recognized in income immediately.

The discount rate used to calculate pension obligations is determined on the basis of current market rates and re-evaluated at each year-end.

Convertible Debentures

The principal amounts of the convertible debentures are convertible into units or shares of respective subsidiaries. Accordingly, the debentures are divided into their liability and minority interest components based on the net present value of the future interest payments at the time of issue. Accretion on the equity component of the debenture is charged to minority interest. Convertible debentures that have the option to settle all interest payments in subsidiary units are classified as minority interest.

Earnings per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding in each respective period. The Company uses the treasury stock method for the calculation of the dilutive effect of stock options and warrants. Diluted earnings per share is calculated by dividing net earnings, adjusted for the dilutive effect of securities in the Company's subsidiaries, by the weighted average diluted shares outstanding.

Derivative Financial Instruments

Derivative financial instruments are utilized to reduce interest rate risk on the Company's debt. The Company does not enter into financial instruments for trading or speculative purposes. Interest rate swap agreements are used to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

Gains and losses on terminations of interest rate swap agreements are deferred on the consolidated balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreement. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of income at the time of extinguishment.

CHANGE IN ACCOUNTING POLICIES

Revenue-Producing Properties

In 2003, the CICA issued Section 3475, 'Disposal of long-lived assets and discontinued operations'. This standard is prospective in application and was effective for disposal activities initiated by an enterprise's commitment to a plan on or after May 1, 2003. The definition of discontinued operations includes any disposal of a component of an entity as well as assets held for sale. The Company prospectively adopted this standard and applied it to one property disposed of in the third quarter and, in accordance with the standard, three properties have been identified as discontinued at year-end.

Under the recently issued CICA Section 3063, 'Impairment of long-lived assets', an impairment loss should be recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected from its use and anticipated disposal value. The impairment recognized should be measured as the amount by which the carrying amount of the asset exceeds its fair value. The standard is prospective in application and is effective for the 2004 fiscal year. Due to a reclassification of properties under development to income-producing properties the Company has written off loss carryforwards of $432,000 in the current year as they can no longer be utilized by the Company.

Effective January 1, 2004, the sinking fund method of amortization currently used for real estate properties will no longer be used as a result of adopting CICA Section 1100. Under Section 3061 'Property, plant and equipment' issued by the CICA, buildings are required to be amortized on a systematic and rational basis over their useful lives. Accordingly, from the effective date, the Company will amortize the building costs of its real estate properties on a straight-line basis. The amortization on a straight-line basis will result in higher amortization expense in the first half of the buildings' useful lives and lower amortization expense for the balance of the years than would have been expensed under the current policy. In fiscal 2004, building amortization will be higher than would have been reported under the existing policy by approximately $30.3 million.

Stock-Based Compensation

The Company has a stock-based compensation plan. No compensation expense was recognized for stock options granted prior to January 31, 2002. Effective January 31, 2002, the Company prospectively adopted the standard set out in CICA Section 3870 regarding the expensing of stock options. Section 3870 requires the fair value of stock options granted on or after January 1, 2003, be recognized over the applicable stock option vesting period as compensation expense in property management and administration expenses in the statements of earnings and retained earnings. On the exercise of stock options, consideration received and the accumulated contributed surplus amount are credited to equity. Under the transitional provisions of Section 3870, prospective application is only available to enterprises that elect to apply the fair value based method of accounting towards awards not previously accounted for at fair value for fiscal years beginning before January 1, 2004. The Company did not issue stock options during 2002 and 2003 and, accordingly, adoption of the standard has no financial statement impact in 2002 or 2003.

Revenue Recognition

The Company recorded rent revenue on stepped rent leases as per the lease documents. Such rent steps are intended to account for inflation. Effective January 1, 2004, the Company will account for stepped rents on a straight-line basis applied prospectively as required under the primary source of Canadian GAAP.

Note 3
Acquisitions

During the year, the Company acquired an additional 2.3 million common shares of RPCL representing 3.17% of the outstanding shares, at $1.65 per share having an aggregate purchase price of $3.8 million. The purchase was funded through the issuance of a note of $2.6 million, bearing interest at a rate of 6% per annum, compounded semi-annually, payable in quarterly instalments of $0.2 million and cash of $1.2 million. The acquisition raised the company's investment to 79.58%. The result of this acquisition was to decrease minority interest by $1.3 million and increase investment in real estate by $4.8 million.

On July 31, 2002, the Company acquired an additional 23 million common shares of RPCL to increase ownership in RPCL to 76.41% and gained control of RPCL. The purchase price of this additional interest was $38.1 million and was funded through the issuance of a senior note of $26 million, bearing an interest rate of 6% per annum compounded semi-annually, payable in equal quarterly installments of $2.4 million and fully amortized over a term of three years, and cash of $12.1 million. The total cost of these acquisitions was $88.8 million. The acquisition was accounted for as a purchase and earnings of RPCL have been included in the consolidated statements of earnings and retained earnings from the date of acquisition.

SUMMARY OF ACQUISITIONS

(In thousands of dollars)	2002 (Restated)
FAIR VALUE OF NET ASSETS ACQUIRED	
Cash and cash equivalents	$ 26,069
Net working capital	2,163
Investments	–
Real estate assets	94,188
	122,420
Bank indebtedness and loans	–
Long-term debt	(33,482)
Equity component of convertible debentures	(22,510)
Future income taxes	(20,080)
Net assets acquired	$ 46,348
CONSIDERATION	
Cash	12,115
Investment	8,233
Long-term note payable	26,000
Total consideration	$ 46,348

When allocating the purchase price to the fair value of the assets acquired for each of the step purchases of RPCL in 2002 and 2001, there was a misclassification relating to the non-controlling interest in the convertible debentures between the fair value of real estate assets acquired and the related minority interest (i). In addition, the Company did not record the future income tax liabilities associated with the excess of the fair value of

the net assets acquired over the purchase price related to its investments in RPCL and Morguard Residential Inc. as is required by Canadian GAAP. In the current year, the Company has reclassified the balance sheet at December 31, 2002, to reflect these items (ii). Further, due to decreases in the substantively enacted tax rates subsequent to the purchases, reductions in the future income tax liabilities should have been recognized through the provision for future income taxes and, as a result, opening retained earnings for 2002 have increased (iii). The results of the reclassification are detailed below.

	December 2002		
(In thousands of dollars)	As Previously Reported (Adjusted for Discontinued)	Adjustments	As Restated
Real estate assets	$1,805,360	$89,492 (ii) 59,853 (i)	$1,954,705
Future income tax liabilities	(32,349)	(89,492) (ii) 9,321 (iii) 10,419 (iii)	(102,099)
Minority interest	(335,304)	(63,897) (i)	(399,201)
Mortgages and convertible debentures	(975,833)	2,440 (i)	(973,393)
Opening retained earnings	(298,145)	(9,321) (iii)	(307,466)
Cumulative translation adjustment	(1,604)	1,604 (i)	–
Future income tax expense	(109)	(10,419) (iii)	(10,528)
Basic diluted earnings per share	2.00	0.71	2.71
Diluted earnings per share	1.57	0.69	2.26

Note 4
Real Estate Assets

Real estate assets consist of the following:

	2003			2002 (Restated) (NOTE 3)		
(In thousands of dollars)	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
REVENUE PRODUCING PROPERTIES						
Buildings	$1,506,035	$49,609	$1,456,426	$1,426,649	$31,960	$1,394,689
Land	548,963	–	548,963	473,833	–	473,833
	$2,054,998	$49,609	$2,005,389	$1,900,482	$31,960	$1,868,522
PROPERTIES UNDER DEVELOPMENT	91,026	–	91,026	45,560	–	45,560
INVESTMENT IN REGIONAL SHOPPING CENTRE, AT COST	42,431	–	42,431	40,623	–	40,623
	$2,188,455	$49,609	$2,138,846	$1,986,665	$31,960	$1,954,705

During the year, interest expense of $589 (2002 – $2.7 million) and net cash flows of $556 (2002 – $346) were capitalized to properties under development.

The Company reclassified one property sold on August 15, 2003, as well as three properties listed for sale at December 31, 2003, as assets held for sale. The assets held for sale are outlined in note 23. During the year, the amortization relating to income-producing properties amounted to $19,237 (2002 – $12,792).

During 2002, the Company sold revenue-producing properties and properties held for sale for proceeds of $73.2 million and realized a gain of $10.3 million.

During 2002, based on an examination of the carrying values and the current market values of one non-core property that was listed for sale, the Company recorded a write-down in 2002 of those properties in the amount of $3.2 million.

Note 5
Investments

Investments consist of the following:

	2003			2002		
(In thousands of dollars)	Equity-Accounted Investments	Other	Total	Equity-Accounted Investments	Other	Total
Portfolio investments	$ –	$27,962	$27,962	$ –	$29,467	$29,467
MFP Financial Services Limited	–	–	–	22,330	–	22,330
	$ –	$27,962	$27,962	$22,330	$29,467	$51,797

During 2003, the Company sold a portion of portfolio investments for proceeds of $32 million (2002 – $16.6 million) and realized a gain of $392 (2002 – $nil). The portfolio of marketable securities is carried at cost plus accrued interest of $213 (2002 – $458). The market value of the portfolio investments based on publicly available prices at December 31, 2003, was $30.5 million (2002 – $52.6 million).

MFP FINANCIAL SERVICES LIMITED ("MFP")

In November 2003, the Company sold its 33.6% investment in MFP and realized a gain on sale as shown below. Prior to disposition the Company accounted for its 33.6% (2002 – 33.6%) investment in MFP using the equity method. During 2003, the Company recorded equity income of $235 (2002 – $2.3 million). During 2002 the Company recorded a write-down of $17.6 million.

(In thousands of dollars)	
Sales proceeds	$ 23,870
Book value of MFP	(22,565)
Legal costs	(108)
Gain on sale	$ 1,197

Note 6
Other Assets Including Goodwill

Other assets including goodwill consists of the following:

	2003			2002		
(In thousands of dollars)	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Goodwill	$ 29,045	$ 4,557	$24,488	$ 29,045	$ 4,557	$ 24,488
Deferred leasing	39,741	11,425	28,316	42,347	7,104	35,243
Deferred financing	5,715	2,571	3,144	4,796	2,226	2,570
	$ 74,501	$18,553	$55,948	$ 76,188	$13,887	$ 62,301
Inventory	1,665	–	1,665	1,491	–	1,491
Recoverable repair costs	17,977	–	17,977	14,473	–	14,473
Prepaid expenses and other	22,870	–	22,870	23,546	–	23,546
	$117,013	$18,553	$98,460	$115,698	$13,887	$101,811

Included in prepaid expenses and other is the accrued pension benefit asset of $0.4 million (2002 – $6.2 million) (note 18). A subsidiary of the Company has been assessed for $3.5 million by the Canada Revenue Agency (the "CRA") for prior year tax liabilities. The Company has filed an objection to the assessment and has paid the amount assessed to the CRA. The Company believes that the assessment is without merit and that it will ultimately be successful in its defence. Pending resolution, the $3.5 million has been recorded in other assets on the balance sheet. In the event that the CRA is successful in its claim, a certain portion of this payment will be recorded as a charge to provision for income taxes in the year in which the matter is resolved and the remainder, which would reflect restored loss carryforwards, would be included as a future income tax asset.

Note 7
Amounts Receivable

Amounts receivable consist of the following:

(In thousands of dollars)	2003	2002
Mortgages receivable	$12,449	$ 6,346
Accounts receivable	39,217	17,134
	$51,666	$23,480

Mortgages receivable bear interest at rates that vary from 0% to 8% (weighted average 5.2%), of which $11,530 is repayable before the end of 2004.

Note 8
Capital Assets

Capital assets consist of the following:

	2003			2002		
(In thousands of dollars)	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	$ 7,531	$5,774	$1,757	$5,878	$3,767	$2,111
Leasehold improvements	3,421	1,827	1,594	2,357	1,436	921
	$10,952	$7,601	$3,351	$8,235	$5,203	$3,032

Certain of the Company's capital assets have been pledged as collateral against the Company's borrowing facilities. During 2003, the Company did not dispose of any capital assets (2002 – $177,000).

Note 9
Mortgages and Debentures Payable

Mortgages and debentures payable, which are all fixed rates, are as follows:

(In thousands of dollars)	2003	2002 (Restated) (NOTE 3)
6.70% redeemable first mortgage bonds (mature October 9, 2007)	$ 105,846	$ 108,223
6.725% redeemable first mortgage bonds (mature April 9, 2008)	49,293	50,720
7.10% redeemable second mortgage bonds (mature October 9, 2007)	18,025	19,000
6.76% first mortgage bonds Series D (mature March 28, 2006)	55,000	55,000
7.72% first mortgage bonds Series B (mature March 28, 2007)	55,000	55,000
7.51% first mortgage bonds Series C (mature June 14, 2010)	25,000	25,000
6.90% first mortgage bonds Series B (mature May 1, 2018)	39,449	40,396
7.90% debenture (matures October 31, 2005) (a)	25,000	25,000
6.00% liability component of convertible debenture (matures March 1, 2004) (b)	–	26,466
7.00% liability component of convertible debenture (matures December 31, 2006) (c)	8,736	8,657
Mortgages (d)	728,942	559,931
	1,110,291	973,393
Estimated fair market value of mortgages and debentures payable	$1,138,705	$1,009,339

The aggregate sinking fund obligations and principal repayments of the mortgages and debentures payable on real estate assets in the next five years and thereafter are as follows:

(In thousands of dollars)

2004	$ 75,896
2005	102,974
2006	112,854
2007	205,390
2008	199,728
Thereafter	413,449
	$1,110,291

(A) 7.9% DEBENTURE

On November 3, 2000, Morguard REIT issued a $25.0 million, 7.9% unsecured convertible debenture as partial consideration for the purchase of real estate assets. The principal amount of the debenture was convertible into units at the option of Morguard REIT on October 31, 2002, at a price per unit equal to 90% of the current market price of the units prevailing on such date, provided, however, that the maximum number of units issuable upon conversion thereof was limited to 9,850,794. Accordingly, the convertible debenture was divided into its liability and equity components. The liability component was calculated using a discount rate of 7.9% on the interest payments to October 31, 2002. The equity component was the difference between the issue amount and the amount recorded as a liability (2001 – $23,640 was allocated to equity). The debenture was not converted on October 31, 2002, and has subsequently been classified as debt. The debenture has a further maturity date of October 31, 2005, with semi-annual interest payments. This debenture can be repaid at any time without penalty or bonus. The equity component was included in minority interest in 2001.

(B) 6.0% DEBENTURE

In July 2003, RPCL redeemed and cancelled all of the remaining 6.0% convertible debentures, which were to mature March 1, 2004. The debentures were redeemed at US$1,021.21 per US$1,000 principal amount, being an amount equal to the principal amount of the debentures plus accrued interest. The redemption resulted in a non-cash loss of $338,000.

(C) 7.0% DEBENTURE

As of December 31, 2003, RPCL has debentures of $42.2 million, bearing interest at 7.0% per annum, payable semi-annually and maturing December 31, 2006. These debentures are unsecured and convertible into RPCL common shares at a price of $12.18 per common share at any time prior to the earlier of December 31, 2006, and the last business day immediately preceding the date specified for redemption.

The debentures will be redeemable at par plus accrued interest but only if the weighted average daily closing price at which the common shares of RPCL have traded on the Toronto Stock Exchange during the 20 consecutive trading days ending not more than five days prior to the date on which notice of redemption is given exceeds: 115% if given on or after January 1, 2003, and on or prior to December 31, 2003; 110% if given on or after January 1, 2004, and on or prior to December 31, 2004; 105% if given on or after January 1, 2005, and on or prior to December 31, 2005; and 100% if given on or after January 1, 2006. The equity component of $42.1 million has been included in minority interest.

(D) MORTGAGES

Mortgages payable bear interest at rates ranging between 4.5% and 11.5% (2002 – 4.5% and 11.5%) per annum with a weighted average year-end rate of 6.47% (2002 – 6.79%) and mature between 2004 and 2018 with a weighted average term to maturity of 5.7 years (2002 – 5.4 years).

(E) RESTRICTED CASH

Substantially all of the Company's real estate assets and related rental revenue have been pledged as collateral for the mortgages and debentures payable. Included in the restricted cash balance is $11,221 which represents a portion of the collateral for the redeemable mortgage bonds.

Note 10
Bank Indebtedness and Loans

The Company and its subsidiaries have available credit facilities and operating lines totalling $193.5 million. Marketable securities, accounts receivable, inventory and capital assets have been pledged as collateral on these credit facilities and operating lines. As at December 31, 2003, the Company had borrowed $159.7 million (2002 – $137.3 million) related to these facilities. Under the terms of its operating lines of credit, the Company is able to make use of bankers' acceptances at stamping fees of 175-200 basis points. As the bank indebtedness is primarily current, the carrying value of the debt at December 31, 2003, approximates its fair value. The rates of interest range from bank prime to bank prime plus 75 basis points per annum.

The bank credit agreements include certain restrictive covenants and undertakings by the Company and its subsidiaries. As at December 31, 2003 and 2002, the Company is in compliance with all covenants and undertakings.

Note 11
Construction Financing on Properties Under Development

The Company and its subsidiaries have construction financing available of $89 million collateralized by properties under development which bear an interest rate at the one month average bankers acceptance interest rate plus 100 basis points and prime minus 0.5% maturing February 28, 2005, and December 31, 2005. As at December 31, 2003, the Company had borrowed $35.9 million (2002 – $5.5 million) in construction financing.

Note 12
Minority Interest

On February 21, 2002, Morguard REIT entered into an agreement with a syndicate of investment dealers under which the syndicate agreed to purchase $60 million principal amount of 8.5% unsecured convertible subordinated debentures due April 1, 2007. Each debenture is convertible into fully paid units of Morguard REIT at the option of the holder at any time prior to the close of business on the earlier of maturity and the business day immediately preceding the date fixed for redemption at a conversion price of $9.50 per unit.

Morguard REIT has the option to settle all interest and principal payments in units and, as such, the debentures have been classified as minority interest. On July 31, 2002, Morguard REIT entered into an agreement with a syndicate of investment dealers under which the syndicate purchased $87 million principal amount of 8.25% unsecured convertible subordinated debentures due November 1, 2007. Each debenture is convertible into fully paid units of Morguard REIT at the option of the holder at any time prior to the close of business on the earlier of maturity and the business day immediately preceding the date fixed for redemption at a conversion price of $10.00 per unit. Morguard REIT has the option to settle all interest and principal payments in units and, as such, the debentures have been classified as minority interest.

Morguard REIT has been approved by the Toronto Stock Exchange to make a normal course issuer bid to purchase up to 2,216,114 of its units. The program expires February 3, 2004.

In 2002, RPCL had been approved by the Toronto Stock Exchange to make a normal course issuer bid to purchase up to 1,000,000 of its common shares. The program expired August 18, 2003.

Minority interest, as previously reported December 31, 2002	$335,304
Reclassification due to accounting change (NOTE 3)	63,897
Income statement impact 2003 (inclusive of discontinued operations)	21,984
Distributions to minority interests	(33,230)
Increased ownership in RPCL	(1,334)
Minority interest, December 31, 2003	$386,621

Represented by:	
Non-controlling interest in subsidiaries' equity	197,495
Non-controlling interest in subsidiaries' convertible debentures	189,126
	$386,621

Note 13
Capital Stock

(A) SHARE CAPITAL AUTHORIZED

Unlimited preference shares, no par value, issuable in series

Unlimited common shares, no par value

	Common Shares	
Issued and fully paid common shares (in thousands of dollars)	#	$
Balance, December 31, 2001	14,851	$125,975
Dividend reinvestment plan	15	272
Employee stock options	122	1,170
Shares repurchased through the Company's normal course issuer bid	(524)	(4,452)
Balance, December 31, 2002	14,464	122,965
Dividend reinvestment plan	7	125
Employee stock options	94	1,151
Shares repurchased through the Company's normal course issuer bid	(535)	(4,259)
Balance, December 31, 2003	14,030	$119,982

The Company has been approved by the Toronto Stock Exchange to make a normal course issuer bid to purchase up to 714,594 (2002 – 719,309) common shares. The program expires September 19, 2004 (2002 – September 19, 2003). During 2003, in connection with the current and previous plans, the Company purchased and cancelled 535,000 common shares (2002 – 523,000) for cash consideration of $10.4 million (2002 – $9.7 million).

Prices paid for the repurchased shares ranged between $18.25 and $20.25 (2002 – between $18.53 and $18.68) per share. The average price paid was $19.35 (2002 – $18.61) per share. The excess paid per share over the average book cost per share has been charged to retained earnings.

(B) STOCK OPTIONS

A total of 490,100 stock options (2002 – 490,100) are available for future grants in the employee stock option plan. The options vest 20% on each anniversary from the date of grant.

A summary of the status of the stock option plan as at December 31, 2003, is as follows:

	Options Outstanding	Weighted Average Price	Exercisable Options
Outstanding at December 31, 2001	1,036,000	$13.06	661,000
Granted			
Exercised	(122,300)	9.56	
Forfeited	(90,000)	15.89	
Outstanding at December 31, 2002	823,700	13.27	604,700
Exercised	(94,000)	12.24	
Forfeited	(20,000)	13.40	
Outstanding at December 31, 2003	709,700	$13.40	607,300

At December 31, 2003, outstanding options have the following terms:

Common Shares to be Issued	Range of Exercisable Prices	Weighted Average Price	Expiry Date	Number of Exercisable Options	Weighted Average Price
110,000	$11.50–14.00	$12.64	2004	110,000	$12.64
110,000	10.25	10.25	2006	110,000	10.25
122,700	15.60	15.60	2007	122,700	15.60
55,000	15.60–16.75	16.16	2008	55,000	16.15
212,000	12.75–12.90	12.79	2009	169,600	12.79
100,000	14.80	14.80	2011	40,000	14.80
709,700				607,300	$13.31

The weighted average contractual life for the options outstanding at year-end is 3.89 years.

(C) WARRANTS

As at December 31, 2003, the Company has 125,000 warrants outstanding. These warrants were issued as part of a financing agreement and expire on July 2, 2004, with an exercise price of approximately $13.00.

Note 14
Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share:

(In thousands of dollars)	2003	2002 (Restated) (NOTE 3)
Net income – basic	$(2,041)	$39,722
Dilutive effect of subsidiaries' convertible debentures, net of income taxes	–	(5,789)
Net income – diluted	$(2,041)	$33,933
Weighted average common shares outstanding – basic	14,257	14,663
Dilutive effect of stock options and warrants	275	341
Weighted average common shares outstanding – diluted	14,532	15,004

Note 15
Income Taxes

(A) The Company's effective income tax rate is derived as follows:

(In thousands of dollars, except percent)	2003		2002 (Restated) (NOTE 3)	
Income taxes at statutory rate	$ 26,321	36.7%	$ 24,498	38.4%
Change in substantively enacted tax rates	19,465	27.2%	(10,421)	(17.1%)
Non-taxable portion of subsidiary income	(12,802)	(17.9%)	(8,595)	(13.5%)
Earnings of equity accounted investments	(43)	(0.1%)	(5,092)	(8.0%)
Non-taxable portion of capital gains	(303)	(0.4%)	(628)	(1.0%)
Write-down of assets and investments	–	–	3,383	5.3%
Large corporations tax	2,011	2.8%	1,943	3.2%
Other	3,845	5.4%	(7,914)	(13.0%)
	$ 38,494	53.7%	$ (2,826)	(5.7%)

(B) The components of consolidated future income taxes are as follows:

(In thousands of dollars)	2003	2002 (Restated) (NOTE 3)
Real estate assets	$(131,734)	$(103,871)
Investments	(16,970)	(9,384)
Non-capital losses benefited	10,408	5,159
Deferred financing costs	1,483	5,481
Other	4,740	516
Total net future income tax liability	$(132,073)	$(102,099)

(C) The Company has non-capital losses of approximately $52.7 million (2002 – $74.9 million) which may be carried forward and used to reduce taxable income in future years. Non-capital losses of $0.3 million (2002 – $21.1 million) available in Canada and $21.4 million (2002 – $32.8 million) available in the United States have not been recognized in the consolidated financial statements. The non-capital losses expire as follows:

(In thousands of dollars)	Total	U.S. Losses	Canadian Losses
2004	$ 166		$ 166
2005	6,393	$ 6,382	11
2006	11,559	11,458	101
2007	33		33
2008	2,898		2,898
2009	6,729		6,729
Thereafter	24,969	3,517	21,452
	$52,747	$21,357	$31,390

Note 16
Statements of Cash Flows

(A) CHANGE IN OPERATING ASSETS AND LIABILITIES

(In thousands of dollars)	2003	2002 (Restated) (NOTE 3)
Amounts receivable	$(28,186)	$41,383
Other assets	(10,507)	(821)
Properties under development and for sale (Morguard Residential Inc.)	–	14,728
Accounts payable and accrued liabilities	(5,303)	(6,694)
Income and other taxes recoverable	–	4,720
Net change in operating assets and liabilities	$(43,996)	$53,316

(B) SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid	80,596	62,918
Income taxes paid	9,476	8,402
Mortgages assumed on the acquisition of real estate assets	65,764	15,638
Market mortgage adjustment on acquired properties	1,855	–
Non-cash dividend issued under dividend reinvestment plan	125	272

Note 17
Pension Plans

The Company maintains a contributory defined benefit pension plan covering certain of its employees. The plan provides benefits based on length of service and final average earnings. There are only three active members since the majority of members were employed in the Company's industrial products distribution business, which was sold in 1996. The pension obligations and related assets for the former employees remain part of the Company's defined benefit pension plan. The most recent actuarial valuation was as of December 31, 2003.

MIL's pension plan, Morguard Investments Limited Employees' Retirement Plan, is a defined benefit plan, which provides benefits based on years of service, years of contributions and annual earnings. Membership is a requirement after a defined term of employment and age. Funding of the plan is provided by contributions from MIL. Certain employees who commenced employment prior to January 1, 1997, elected to contribute to the plan and receive a higher benefit. The most recent actuarial valuation was as of December 31, 2003. The cost of benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of compensation increases, retirement ages of employees, future termination levels and expected return on plan assets. The 10% corridor (i.e. 10% of greater of plan assets and accrued benefit obligation) has been utilized for the amortization of any actuarial gain or loss.

The significant actuarial assumptions adopted in measuring the Company's projected benefit obligations are as follows:

	Company	MIL
Discount rate	6.75%	6.75%
Rate of compensation increase	4.50%	3.00%
Expected return on plan assets	8.50%	8.50%

Information about the Company's defined benefit plans is as follows:

	2003		2002	
(In thousands of dollars)	Company	MIL	Company	MIL
ACCRUED BENEFIT OBLIGATIONS				
Balance at beginning of year	$63,744	$15,267	$64,462	$13,932
Current service cost	58	1,113	65	1,119
Interest cost	3,877	1,067	4,187	990
Benefits paid	(5,122)	(1,159)	(5,003)	(774)
Actuarial losses (gains)	819	1,494	33	–
Balance at end of year	$63,376	$17,782	$63,744	$15,267
PLAN ASSETS				
Fair value at beginning of year	64,285	12,774	66,275	14,443
Actual return on plan assets	14,249	1,554	1,523	300
Employer contributions	1,901	–	1,490	–
Employee contributions	–	251	–	293
Benefits paid	(5,122)	(1,159)	(5,003)	(775)
Fair value at end of year	$75,313	$13,420	$64,285	$12,774
FUNDED STATUS – SURPLUS (DEFICIT)	11,937	(4,362)	541	(2,493)
Unamortized net actuarial loss (gain)	(7,964)	4,464	139	3,599
Unamortized transitional asset (obligation)	4,969	(571)	5,524	(907)
Accrued benefit before valuation adjustment	8,942	(469)	6,204	199
Valuation allowance	(8,532)	–	–	–
ACCRUED BENEFIT ASSET	410	(469)	6,204	199

The valuation allowance recorded in the current year has been included in property management and administration costs.

(In thousands of dollars)	Company	MIL	Company	MIL
CURRENT SERVICE COST	$ 58	$ 862	$ 65	$ 826
Interest cost	3,877	1,067	4,187	990
Interest on pension fund assets	(5,327)	(1,047)	(5,484)	(1,207)
Amortization of transitional obligation (asset)	552	(336)	552	(336)
Amortization of experience (gains)/losses	–	122	–	–
Service cost before change in valuation allowance	(839)	667	(680)	273
Valuation allowance	8,532	–	–	–
NET BENEFIT PLAN (INCOME) EXPENSE	$ 7,693	$ 667	$ (680)	$ 273

Note 18
Commitments and Contingencies

(A) COMMITMENTS

Future minimum annual rental payments for office premises and equipment operating leases as well as two operating leases that expire at various dates ending in 2060 are payable over the next five years as follows:

(In thousands of dollars)	
2004	$ 3,835
2005	3,749
2006	3,454
2007	3,324
2008	3,324
Thereafter	146,615

The Company has entered into various agreements for the purchase and development of properties. Should all conditions be met, expenditures in the next twelve months are estimated at $16.4 million.

The Company is committed to making the following payments under a ground lease to the year 2065 for land upon which one of their properties is situated.

To February 28, 2005	$38
March 1, 2005, to February 28, 2009	$39
March 1, 2009, to February 28, 2011	$41
Subsequent to February 2011	Fair value of the land at February 2011 multiplied by 8.5% per annum

Within the normal course of business, Morguard Residential Inc. has commitments to complete servicing requirements with its residential land under development and income-producing properties. These commitments are estimated to incur $36.4 million to completion and have been guaranteed by irrevocable letters of credit amounting to $17 as at December 31, 2003 (2002 – $467).

(B) CONTINGENCIES

The Company has issued irrevocable letters of credit relating to normal course development activity amounting to $2.7 million as at December 31, 2003 (2002 – $8.3 million). During 2000, an action was commenced by a developer against Morguard REIT and its trustees for approximately $22.7 million. This action relates to the property purchased from the developer in 1998. Morguard REIT has counterclaimed against the developer and another party. The outcome of the claims cannot be determined at this time. No provision for settlement of this claim has been included in Morguard REIT's accounts at this time. Morguard REIT is also seeking payment of a loan receivable from the developer of $1.3 million that was due in March 2001.

In addition, various other claims and legal proceedings have been asserted or instituted against the Company, including some which demand large monetary damages or other relief which could result in significant expenditures. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable and no provision has been made in the accounts. However, should the claim be settled for amounts in excess of the established reserves, such costs will be charged to operations as incurred.

Note 19
Related Party Transactions

Related party transactions are summarized as follows:

(In thousands of dollars)	2003	2002 (Restated) (NOTE 3)
AMOUNTS RECEIVABLE		
Share purchase loans (a)	$2,126	$1,487
Employee loan (b)	27	207
Income from properties (c)	113	107
Other income (expense) (c)	–	658
FEES AND OTHER INCOME		
Tri-White Corporation (d)	600	600

(A) SHARE PURCHASE LOAN

Share purchase loans to officers of the Company of $2.1 million (2001 – $1.5 million) are outstanding as at December 31, 2003. Effective January 1, 2003, these loans have a term of five years, are collateralized and are interest-bearing at a rate of 5% per annum. The fair market value of the shares held as collateral is $6.1 million.

(B) EMPLOYEE LOAN

The employee loan to an officer of the Company of $27 is outstanding as at December 31, 2003. This loan is repayable on demand, is non-secured and non-interest-bearing. In 2003, the employee loan to an officer of a subsidiary of $180,000 was repaid in full.

(C) INCOME FROM PROPERTIES

A company controlled by a director of RPCL and the Company paid, under the terms of its tenancy agreement, $113,000 (2002 – $107,000) to lease a residential suite owned by RPCL. During 2002, RPCL paid consulting fees of $658,000 to the company controlled by the same director which are included in other income (expense).

(D) TRI-WHITE CORPORATION ("TRI-WHITE")
The Company provides Tri-White with managerial and consulting services for its business and the business of its subsidiaries. Mr. K. (Rai) Sahi is a significant shareholder of Tri-White through his holding company, Paros Enterprises Limited, and is Chairman and Chief Executive Officer of the Company. Paros Enterprises Limited is a significant shareholder of the Company. The Company receives a management fee of $600,000 per annum from Tri-White, under a contractual agreement.

Note 20
Co-Ownership Interests

The following amounts, included in these consolidated financial statements, represent the Company's proportionate share in co-ownership interests:

(In thousands of dollars)	2003	2002
BALANCE SHEET		
Assets	$117,027	$108,272
Liabilities	96,484	99,245
Equity	$ 20,543	$ 9,027
STATEMENT OF OPERATIONS		
Revenue	33,442	43,391
Expenses	24,884	34,465
Earnings from operations	$ 8,558	$ 8,926
STATEMENT OF CASH FLOWS		
Cash flows resulting from		
Operating activities	11,541	31,442
Financing activities	(3,085)	(5,057)
Investing activities	(11,876)	(19,055)

The Company is contingently liable for the other participants' share of the incorporated and unincorporated co-ownerships and partnerships in which it participates. The other participants' share of the assets of the co-ownerships and partnerships is available for the purpose of satisfying such obligations. The net carrying value of the assets of these co-ownerships exceeds the contingent liabilities.

Note 21
Financial Instruments and Risk Management

The Company's operations are subject to a number of risks and uncertainties, including, but not limited to, risks associated with the development of future properties, competition, the real estate markets and general economic conditions in which the Company competes, the availability and cost of financing and fluctuations in interest rates.

The Company does not acquire, hold or issue derivative financial instruments for trading purposes.

The Company is exposed to the following risks related to financial assets and liabilities:

(A) INTEREST RATE RISK

The Company minimizes its exposure to unfavourable interest rate changes by ensuring that mortgage debt matures over a number of years. The Company also has outstanding bank loans, which would expose the Company to fluctuations in short-term interest rates.

Interest rate risk is minimized as debts are financed at fixed rates with maturities scheduled over a number of years (note 10). At December 31, 2003, 85% (2002 – 88.2%) of the Company's indebtedness for borrowed money was issued at fixed rates.

During the year, the Company entered into five contracts to swap floating rates on future anticipated debt to fixed monthly payments that aggregate to $173.0 million (2002 – $nil). The net receipt or payment of interest will be recorded as an adjustment to interest expense in each period. The details of the contracts are as follows:

Effective Date	Amount	Maturity Date	Rate	Favourable (Unfavourable) Fair Value
January 2, 2004	$60 million	January 2, 2014	4.660%	US $ 944
December 15, 2004	$43 million	December 15, 2014	4.795%	US $1,236
November 1, 2005	$25 million	November 1, 2015	5.770%	US $ (285)
September 1, 2005	$25 million	September 1, 2015	5.760%	US $ (343)
March 1, 2006	$20 million	March 1, 2016	5.765%	US $ (122)

(B) CREDIT RISK

The Company operates as an investor in real estate assets. As an investor, the Company is exposed to credit risk to the extent that its tenants may fail to meet their obligations under the lease agreements. This risk is alleviated by minimizing the amount of exposure the Company has to any single tenant ensuring a diversified tenant mix and purchasing property in several major geographic locations.

(C) FAIR VALUE

The fair value of cash and cash equivalents and marketable securities approximates their carrying value. Amounts receivable, accounts payable and accrued liabilities, bank indebtedness and loans are also assumed to have a fair value that approximates their carrying value due to their short-term nature. The fair value of mortgages payable on real estate assets has been determined by discounting the cash flows using current market rates of similar investments. The fair value of investments having quoted market values and which are publicly traded on a recognized stock exchange are based on the quoted market prices.

Note 22
Segmented Information

The Company operates primarily in two operating segments, real estate and management and other operations. Real estate operations are defined to include property ownership and development. Management and other operations include property management, equipment leasing and distribution.

	2003			2002 (Restated) (NOTE 3)		
(In thousand of dollars)	Real Estate Operations	Management and Other Operations	Total	Real Estate Operations	Management and Other Operations	Total
Revenue	$ 328,574	$40,850	$ 369,424	$ 288,355	$43,952	$ 332,307
Earnings from operations before the undernoted	160,303	7,458	167,761	129,299	13,318	142,617
Amortization	23,220	800	24,020	17,073	827	17,900
Interest	81,182	50	81,232	64,538	78	64,616
Earnings before other income (expense), income taxes and minority interest	55,900	6,609	62,509	47,688	12,413	60,101
Interest and other	6,669	2,294	8,963	5,228	(7,372)	(2,144)
Cost of early settlement of mortgages	(908)	–	(908)	(258)	–	(258)
Net gain on sale of assets and investments	–	1,287	1,287	9,177	–	9,177
Earnings of equity-accounted investments	–	235	235	12,736	2,280	15,016
Write-down of assets and investments	(432)	–	(432)	(3,200)	(17,617)	(20,817)
Earnings from operations before income taxes, minority interest and discontinued operations	61,230	10,424	71,654	71,371	(10,296)	61,075
TOTAL ASSETS						
Other assets	2,325,560	33,261	2,358,821	2,141,275	18,417	2,159,692
Goodwill	–	24,488	24,488	–	24,488	24,488
Equity accounted investments	–	–	–	–	22,330	22,330
	$2,325,560	$57,749	$2,383,309	$2,141,275	$65,235	$2,206,510
Additions to assets during the year	1,215	1,502	2,717	220	925	1,145

Revenue from real estate assets is disclosed separately in the consolidated statements of earnings and retained earnings as "income from properties". Property management and other activities generate fee revenue in return for services provided. Revenue from these sources is included in "fees and other income" and "sales of condominiums and products". There are no significant inter-segment transactions.

Management continues to focus its attention on the growth of its real estate operations. The existing real estate operations operate across four property types located in three major geographical locations across Canada. The Company operates to ensure an appropriate mix of property type and geographical location. Additional information with respect to real estate assets is outlined below:

	2003			2002 (Restated) (NOTE 3)		
(In thousands of dollars)	Total Revenue	Net Property Income	Real Estate Assets	Total Revenue	Net Property Income	Real Estate Assets
PROPERTY TYPE						
Office	$ 54,823	$ 29,279	$ 311,978	$ 37,569	$ 17,862	$ 294,095
Industrial	27,462	16,731	168,461	17,824	12,444	143,461
Retail	161,221	95,784	1,144,844	127,493	74,554	1,002,874
Residential	83,881	44,346	513,563	77,764	41,320	514,275
	$327,387	$186,140	$2,138,846	$260,650	$146,180	$1,954,705
GEOGRAPHIC						
Western	15,288	9,108	100,145	9,077	5,913	100,270
Prairies	73,423	42,298	465,633	72,994	32,888	367,168
Eastern	238,676	134,734	1,573,068	178,579	107,379	1,487,267
	$327,387	$186,140	$2,138,846	$260,650	$146,180	$1,954,705

Net property income represents income from properties, net of property operating expenses.

Note 23
Assets Held for Sale and Discontinued Operations

On August 15, 2003, Morguard REIT disposed of an industrial property for a sale price of $1,450 and realized a gain of $64. This property was listed for sale and Morguard REIT recorded a provision for a diminution in value of $500 in the second quarter of 2002. As at December 31, 2003, Morguard REIT identified three properties as being held for sale in accordance with CICA Section 3475 of the CICA Handbook. Morguard REIT recorded a provision for a diminution in value of $16,000 on these three real estate properties. In accordance with Section 3475, the assets, liabilities, and operating results of these properties have been classified as assets held for sale on a retroactive basis. The following tables set forth the balance sheets, statements of income and cash flows associated with the long-lived assets classified as assets held for sale reported for the current and prior years.

BALANCE SHEETS

(In thousands of dollars) As at December 31	2003	2002
ASSETS		
Real estate properties	$ 39,720	$57,362
Other assets	2,345	2,286
Amounts receivable	85	93
	$ 42,150	$59,741
LIABILITIES AND EQUITY		
Liabilities		
Accounts payable and accrued liabilities	1,280	920
Total liabilities	1,280	920
Trust's net investment in assets held for sale	40,870	58,821
	$ 42,150	$59,741

STATEMENTS OF INCOME

(In thousands of dollars) Years ended December 31	2003	2002
Income from real estate assets		
Income from properties	$ 8,627	$ 8,997
Property operating expenses	4,662	4,561
Property management fees	361	374
	$ 5,023	$ 4,935
Income before the undernoted	3,604	4,062
Amortization – buildings	448	464
Amortization – leasing costs and capital assets	437	375
	$ 885	$ 839
Income before gain on sale of real estate properties and other provisions	2,719	3,223
Gain on sale of real estate properties	64	–
Provision for a diminution in value of a real estate property	(16,000)	(500)
Net (loss) earnings before minority interest	(13,217)	2,723
Minority interest	(6,594)	1,356
Net (loss) earnings from discontinued operations	(6,623)	1,367

STATEMENTS OF CASH FLOWS

(In thousands of dollars) Years ended December 31	2003	2002
OPERATING ACTIVITIES		
Net income (loss) for the year from discontinued operations	$ (6,623)	$ 1,367
Minority interest	(6,594)	1,356
Gain on sale of a real estate property	(64)	–
Provision for a diminution in value of real estate properties	16,000	500
Amortization – buildings	448	464
Amortization – leasing costs and capital assets	437	375
	3,604	4,062
Leasing costs	(768)	(508)
Net change in non-cash operating items	640	(104)
Cash provided by operating activities	$ 3,476	$ 3,450
INVESTING ACTIVITIES		
Additions to real estate properties	(192)	(191)
Proceeds on sale of real estate properties	1,450	–
Cash provided by (used in) investing activities	$ 1,258	$ (191)
Net increase in cash during the year from operations	4,734	3,259
Payments to the Company	(4,734)	(3,259)
Net increase during the year and end of year	–	–

Note 24
Comparative Consolidated Financial Statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2003 consolidated financial statements.

Note 25
Subsequent Events

(A) In January 2004, the Company terminated one unexercised interest rate swap. As a result, the Company received $977 in settlement payments. This will be recorded as an adjustment to interest expense over the remaining life of the instrument.

(B) Morguard REIT has entered into agreements of purchase and sale to sell a 100% interest in two office properties located in Vancouver, British Columbia, and one in Winnipeg, Manitoba, for an aggregate sale price in excess of $43,000. The sale is scheduled to close in the first quarter of 2004. A $16,000 provision for a diminution in value of these properties was recorded in the fourth quarter of 2003.

In addition, Morguard REIT has entered into a purchase and sale agreement to sell a 50% interest in two office properties in Alberta. The transaction is also expected to close in the first quarter of 2004 and Morguard REIT expects to realize a gain on sale of approximately $7,000.

(C) In February 2004, Morguard REIT refinanced the mortgages and a line of credit secured by the Cambridge Centre, Cambridge, Ontario. The new $75,000 mortgage is for a 10-year term at a fixed rate of 5.85% per annum, maturing on March 1, 2014.

(D) On January 22, 2004, the Company settled with the dissenting shareholders on Morguard Residential Inc. in the amount of $6,100 representing principal of $5,500 and interest of $652. The result of the transaction was to increase the Company's recorded investment in Morguard Residential Inc. by $1,200 and cancel notes of $2,100.

Corporate Directory

BOARD OF DIRECTORS

K. (Rai) Sahi
Chairman &
Chief Executive Officer,
Morguard Corporation

David King
Vice Chairman,
Morguard Corporation,
President,
David King Corporation

Jim Connacher
Corporate Director

Wayne McLeod
Corporate Director

George Michals
President,
Baymont Capital
Resources Inc.

Tim Price
Chairman,
Brascan Financial
Corporation

O. Temple Sloan Jr.
Founder & Chairman,
General Parts, Inc.

Mark Tanz
Principal,
Amcan Financial
Consultants

Alex Taylor
Chairman,
Enersource Corporation

Michel Vennat
Corporate Director

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

Michel Vennat
Chairman

O. Temple Sloan Jr.

Alex Taylor

AUDIT COMMITTEE

Wayne McLeod
Chairman

George Michals

Tim Price

HUMAN RESOURCES, COMPENSATION AND PENSION COMMITTEE

Mark Tanz
Chairman

James Connacher

David King

CORPORATE INFORMATION

Auditors
Ernst & Young LLP

Transfer Agents
and Registrars
of Common Shares
Computershare
Trust Company

Principal Bankers
Canadian Imperial
Bank of Commerce
Toronto-Dominion Bank

Share Listing
Toronto Stock Exchange

Symbol
MRC

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Chief Executive Officer

David A. King
Vice Chairman

Bart S. Munn
Vice President
& Chief Financial Officer

Eugene N. Hretzay
Corporate Counsel
& Secretary

Frank Munsters
Vice President,
Credit & Banking

Stephen Taylor
Vice President

MORGUARD REAL ESTATE INVESTMENT TRUST

David A. King
Chairman

K. (Rai) Sahi
Chief Executive Officer

William Kennedy
President &
Chief Operating Officer

MORGUARD INVESTMENTS LIMITED

K. (Rai) Sahi
Chairman &
Chief Executive Officer

Stephen Taylor
President &
Chief Operating Officer

Bart S. Munn
Senior Vice President,
Finance

MORGUARD RESIDENTIAL INC.

K. (Rai) Sahi
Chairman &
Chief Executive Officer

Frank Munsters
Vice President

REVENUE PROPERTIES COMPANY LIMITED

K. (Rai) Sahi
Chairman &
Chief Executive Officer

Antony K. Stephens
President

Paul Miatello
Vice President,
Finance &
Chief Financial Officer

INVESTOR RELATIONS

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ANNUAL GENERAL MEETING

Thursday, June 10, 2004
at 11am
TSX Conference Centre
The Exchange Tower
130 King Street West
Toronto, Ontario
M5X 1J2

DESIGN: JUMP COMMUNICATIONS INC.

SHAREHOLDER DIVIDEND REINVESTMENT PLAN

Registered holders of common shares of the Company, wishing to purchase additional common shares, may participate in a convenient investment plan. Quarterly dividends may be reinvested automatically to purchase additional common shares, at 95% of the simple average of the closing price for common shares of the Company on The Toronto Stock Exchange, for the 20 trading days immediately proceeding a dividend date, without paying any administration fees, brokerage charges or commissions.

ADDITIONAL INFORMATION MAY BE OBTAINED FROM:

Dividend Reinvestment Services
Computershare Trust Company of Canada
100 University Avenue, Toronto, Ontario M5J 2Y1
Telephone 1.800.663.9097
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